

TOWN OF CHINA GROVE
NORTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the year ended June 30, 2005



MAYOR, TOWN COUNCIL AND TOWN OFFICIALS

MAYOR AND TOWN COUNCIL

Donald E. Bringle – Mayor

Harold Simpson – Mayor Pro Tem

Troy Elliott

Roy Patterson

Harry Rogers

Steve Stroud

OFFICIALS

Eric C. Davis
Town Manager

Mary J. Bopp
Finance Director

Report Prepared By

Town of China Grove
Administration Department

Eric C. Davis – Town Manager
Mary J. Bopp – Finance Director

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The Honorable Mayor Donald E. Bringle and Town Council,
Town Manager, Eric Davis, and Citizens of the
Town of China Grove, North Carolina

We are pleased to present the Comprehensive Annual Financial Report (Report) of the Town of China Grove (Town) for the Fiscal Year ended June 30, 2005 (FY05). We are particularly proud of the fact this Report has been entirely prepared by the Administrative Staff. Responsibility for both the accuracy of the data presented and the completeness and fairness of presentation, including all disclosures, rests with the Town. We believe the data is accurate in all material respects, and it is presented in a manner designed to set forth fairly the financial position and the results of operations of the Town as measured by the financial activity of its various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the Town's financial affairs have been included. The accompanying financial statements have been audited by Sherrill and Smith, CPAs, PA, an independent firm of certified public accountants, and their opinion is included in the Report.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

The financial statements have been prepared in compliance with the applicable requirements of the General Statutes of North Carolina and are consistent with the standards and guidelines recognized for governmental accounting and reporting contained in both Audits of State and Local Government Units, an audit guide prepared by the Committee of Governmental Accounting of the American Institute of the Certified Public Accountants (AICPA) and Government Auditing Standards, issued by the Comptroller General of the United States. Among the other resources used in preparation of the financial statements, the Administration Department Staff has given particular attention to the Governmental Accounting, Auditing and Financial Reporting (GAAFR) issued by the Government Finance Officers Association of the United States and Canada (GFOA), and Governmental Accounting Standards Board (GASB) pronouncements.

The Comprehensive Annual Financial Report is presented in three sections: Introductory, Financial, and Statistical. The Introductory Section contains this letter of transmittal and

information about the Town's organization and principal officials. The Financial Section is composed of the independent auditor's report, the Management's Discussion and Analysis, the basic financial statements, required supplementary information, and other supplemental information. The Statistical Section includes selected financial and demographic information, generally presented on a multiyear basis, however; this Report will only include two years of information due to the transformation to GASB-34. The Town is also required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996, the State Single Audit Implementation Act, and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and No-Profit Organizations.

This is the first year the Town has participated in the Certificate of Achievement for Excellence in Financial Reporting awards program sponsored by the Government Finance Officers Association of the United States and Canada. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

ECONOMIC CONDITION AND OUTLOOK

The Town of China Grove is located in the heart of North Carolina, situated along the I-85 Corridor, which links the community to the state's economic centers. The Town is located midway between two major metropolitan regions: Charlotte to the South, and the Piedmont Triad (Greensboro, High Point and Winston Salem) to the North. In addition to the interstate highway, the Town is also served by two major rail lines and an airport close by. This location offers widely diversified employment opportunities for residents in areas ranging from financial, educational, medical and governmental activities. In summary, the diverse local economic base and long term planning coupled with the region's advantages have made the Town an attractive place to live and do business.

The nation's economy has slowed in the past several years and the economy in China Grove and surrounding areas has been adversely affected. However, there are signs that the local economy is beginning to recover. The Town's downtown area continues to develop and expand. Ninety-five percent of the retail space in downtown is currently occupied. The downtown business district is a thriving retail center for local merchants and the Town continues to support and encourage growth of the downtown area.

The Town's proximity to the State's metropolitan regions provides many advantages and challenges. The Piedmont is one of the country's largest growth corridors. In these slowing economic conditions, the Town's management, the Town Council and the citizens continue to explore and develop goals and plans to keep the Town of China Grove financially sound while providing the services domestic and corporate citizens require.

MAJOR INITIATIVES

There are two major initiatives that will be undertaken by the Town of China Grove during the 2005-2006 fiscal year. These initiatives are utility system expansion, and the development of a comprehensive economic development program.

The first initiative, utility system expansion, will focus on constructing several water and sewer lines that have been in the planning stages for the previous two years. The first project is the construction of a gravity sewer line and force main that will serve the new high school that is currently under construction. This project will cost approximately \$2.3 million and is jointly funded by the Town of China Grove, Rowan County, and the Rowan-Salisbury School System. Once completed, this project will also open up the I-85 corridor for development between Pine Ridge Road and Highway 152. The second utility project is the construction of water and sewer lines in the southern portion of Town along Highway 29 and Bostian Road. This area was annexed into the city approximately two years ago. These lines will provide water and sewer service to existing residents and businesses in the area, as well as aid individuals looking to develop property along Highway 29. The third and final project will be the extension of water and sewer lines in the western part of Town along Highway 152 and Patterson Road. This area was annexed into the city one year ago. These lines will provide water and sewer service to existing residents and businesses in the area.

The second initiative, development of a comprehensive economic development program, will focus on improving the Town of China Grove's ability to recruit new businesses and industry to the area, while at the same time, seek ways in which existing business and property owners can enhance and grow their business. The Town will seek to develop and implement strategies that aid in the industrial development of the I-85 corridor, and promote commercial development along Highway 29. The Town also hopes to find ways to maintain the vitality and prosperity of the downtown area.

FUTURE DEVELOPMENTS

The Institute of Government of the University of Chapel Hill conducts a Local Government Performance Measurement Project which the Town has based its own Performance Measurement system on. The Town will continue to collect data for this project. The purpose of this project is to provide an external context in which to examine local government performance and provide a catalyst to service or process improvements. At this point, police services, emergency services, street maintenance and repair, residential solid waste collection and recycling, yard waste and leaf collection, water and sewer services, and fire services have been and will continue to be evaluated. The Town hopes to improve existing services by establishing local government performance measures that can be compared to other municipalities in order to assess our performance. Town goal setting, team building, goals evaluation and determining levels of service will all be enhanced by participating in the implementation of uniform performance measure standards that will allow a municipality's performance to be assessed.

SERVICES PROVIDED

The Town of China Grove provides a full range of municipal services allowable under State law including law enforcement, fire protection, planning and development services, zoning and code enforcement, recreation centers and parks, and street maintenance. In addition to these general government activities, the Town provides and maintains water and sewer utilities and storm water management. This report includes all the Town's fiscal activities in maintaining these services.

GOVERNMENT STRUCTURE

The Town employs a Council-Manager form of government as provided in the Town's Charter. The governing body consists of a mayor and five council members, elected on a nonpartisan basis at large for a four year, staggered term. Elections are held in November of odd numbered years. The Town Manager is appointed by and serves at the pleasure of the Mayor and Council. The Mayor and Council adopt a balanced budget and establish a tax rate for the support of Town services prior to the beginning of each July 1 to June 30 fiscal year. The Town Manager administers Town programs in accordance with local policy and the annual budget.

ACCOUNTING SYSTEMS AND BUDGETARY CONTROL

In developing and evaluating the Town's accounting systems, consideration is given to the adequacies of internal controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost control should not exceed the benefits likely derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe the Town's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

As a recipient of federal awards, the Town is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management. As a part of the Town's single audit described earlier, tests are made to determine the adequacy of the internal control structure, including that portion related to federal awards, as well as to determine that the Town has complied with applicable laws and regulations. The results of the Town's single audit for FY05 provided no instances of material weaknesses in the internal control structure or significant violations of applicable laws and regulations.

Budgetary control is maintained at the departmental level by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders which result in an overrun of departmental balances are not released until additional appropriations are made available. Open encumbrances lapse at year end are reinstated against the subsequent year's appropriation. They are shown as a reservation of fund balance at June 30, 2005.

BASIS OF ACCOUNTING

The Town's accounting records for governmental funds are maintained on a modified accrual basis whereby revenues are recognized when measurable and available, and expenditures are recognized in the accounting period in which the liability is incurred except for unpaid interest on general long term debt. Proprietary fund and pension trust fund revenues and expenses are recognized on the accrual basis whereby revenues are recognized in the accounting period in which they are earned. Fiduciary funds are accounted for on the modified accrual basis, the same as for governmental funds.

FUND ACCOUNTING

Governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, recording cash and other financial resources together with all related liabilities and residential equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or obtaining certain objectives in accordance with special regulations, restrictions or limitations. Thus a governmental unit is a combination of several distinctly different fiscal and accounting entities, each having a separate set of accounts and functions.

FUND AND ACCOUNT GROUP CATEGORIES

Governmental funds are those through which governmental functions typically are financed. The acquisition, use and balances of the government's expendable financial resources and the related current liabilities, except those accounted for in the proprietary fund, are accounted for through governmental funds. The governmental fund measurement focus is based upon determination of financial position and changes in financial position (sources, usage and balances of financial resources), rather than upon net income determination. The statement of revenues, expenditures and changes in fund balance is the primary governmental fund operating statement. It may be supported or supplemented by more detailed schedules of revenues, expenditures, transfers and other changes in fund balance.

Proprietary funds are used to account for a government's ongoing organizations and activities which are similar to those found in the private sector. All assets, liabilities, equity, revenues, expenses and transfers relating to the government's business and quasi-business activities (where net income and capital maintenance are measured) are accounted for through proprietary funds. The generally accepted accounting principles

used here are those applicable to similar businesses in the private sector and the measurement focus is upon determination of net income, financial position and cash flows.

Fiduciary funds are used to account for assets held by governmental units in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. Agency funds are purely custodial in nature and do not measure the results of operations. Pension trust funds are accounted for in essentially the same manner as proprietary funds.

FINANCIAL MANAGEMENT

The Town's financial management program continues to provide the citizens of the Town with an approach which has served to enhance the Town's excellent financial position by:

1. Investing all available funds not needed on a daily basis in order to maximize interest earnings
2. Allocating Town resources only to program areas that meet community needs
3. Monitoring these program areas to ensure they are carried out within authorized levels.

This financial management program allows the Town to achieve its goal of expanded and improved services to the citizens of China Grove. As discussed in the Management's Discussion and Analysis, the Town continues to receive excellent bond ratings from various rating agencies. This is a reflection of the Town continued sound financial condition.

CASH MANAGEMENT

The Town's temporary idle cash is invested in interest-bearing demand deposits, certificates of deposit, Finistar and the North Carolina Capital Management Trust. All revenues received are deposited the same day in a consolidated interest-bearing bank account. This bank account is drawn upon to meet all payroll and payable obligations, and the Town maintains in the account only as much money as is required to meet current obligations. All other idle cash is invested in instruments authorized by the General Statutes of North Carolina. The average yield on investments was 2.03% for the year ended June 30, 2005.

The Town's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. Accordingly, deposits were either insured by federal depository insurance or collateralized. The Town's entire investment portfolio at June 30, 2005, is classified in the category of lowest credit risk as defined by the Governmental Accounting Standards Board. The remainder of the City's investment portfolio is exempt from risk categorization because it was invested in the North Carolina Capital Management Trust, an SEC registered mutual fund where the Town is only a shareholder of a percentage of the fund and does not own any identifiable securities.

RISK MANAGEMENT

In the efforts to maintain services at a reasonable cost to the citizens of China Grove, the Town has developed and maintained a risk management program that encompasses nearly every aspect of the Town's operations. Insurance liability coverage is obtained through a combination of commercial insurers, the insurance pool administered by the North Carolina League of Municipalities, and self-insurance. This approach has allowed the Town to obtain maximal amounts of property and liability coverage at the most economical cost.

CONCLUSION

The future continues to hold many uncertainties. Federal and State mandates continue to impact local governments in all areas of operations. The citizens of China Grove have come to expect and appreciate the high level of service they enjoy. The management of the Town is necessarily charged with managing its resources in the best possible manner to deliver those services at a cost citizens will agree to bear. The Town will continue to focus on its core values and provide quality services to our citizens. The Town continues to face rising operational costs while guarding against unnecessary tax and utility rate increases. All Town operations are being asked to contribute to the focused effort to maintain our ability and readiness to respond to our citizens. As long as revenue growth rates do not decline unexpectedly, the costs of providing services do not escalate more rapidly than in previous years, and the Town continues to evaluate all existing and potential revenue options, including annexations, we can accomplish this task. Overall, continued growth and policy adjustments that have been initiated by Town Council will continue to provide the Town a stable financial position from which we may serve the citizens of China Grove for years to come.

ACKNOWLEDGEMENTS

We wish to thank the Mayor and Town Council for the support and trust they have given the Administration Department. On behalf of the team of the Administration Department, we promise our continued dedication to proving ourselves worthy of their support and trust. We are confident that together we can provide the citizens of China Grove with responsible and progressive financial management.

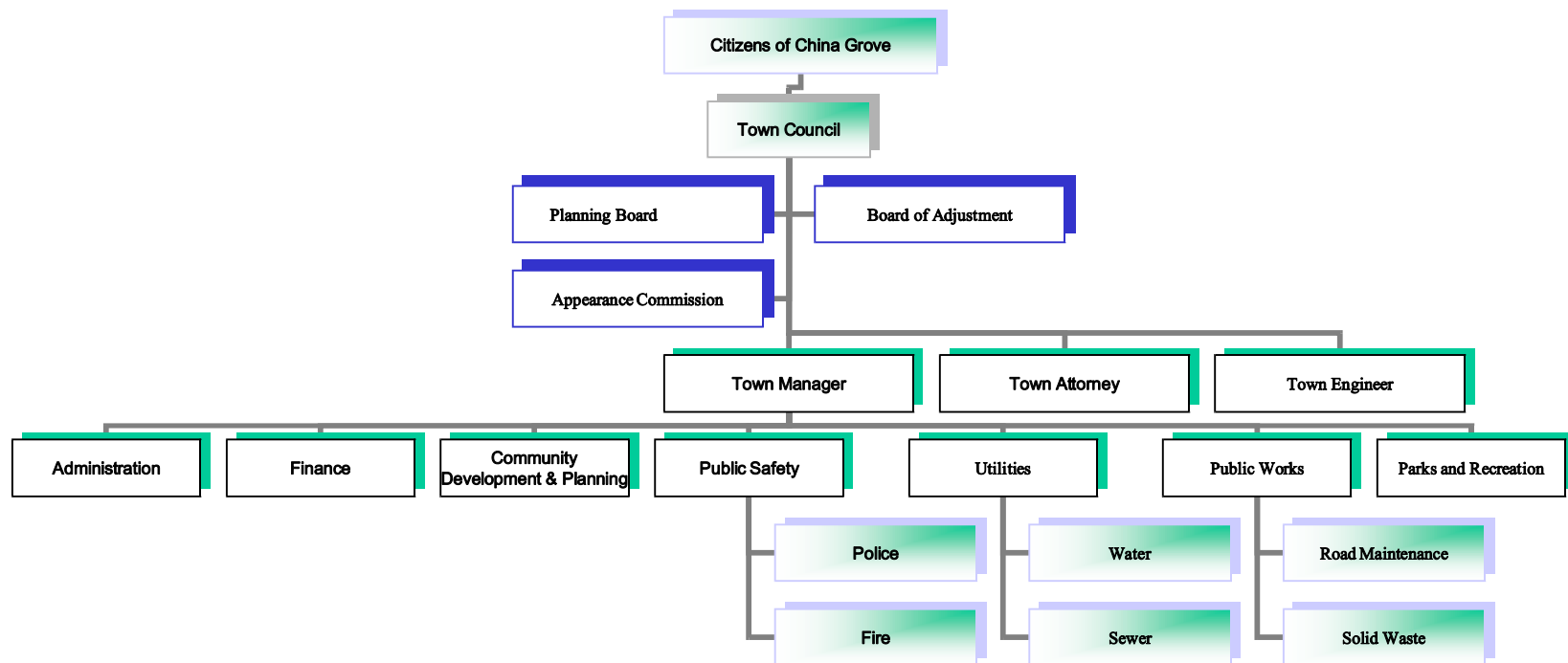
The Administration Department has strived to prepare a financial report which provides a meaningful analysis and disclosure of the Town's financial activities and financial position. We believe this report conforms substantially to the standards of financial reporting of the appropriate professional organizations.

Respectfully submitted,

Eric C. Davis
Town Manager

Mary J. Bopp
Finance Director

Town of China Grove Organizational Chart



TOWN OF CHINA GROVE

List of Principal Officials

June 30, 2005

Mayor	Donald E. Bringle
Mayor Pro Tem	Harold Simpson
Councilman	Troy Elliott
Councilman	Roy Patterson
Councilman	Harry Rogers
Councilman	Steve Stroud
Town Manager	Eric C. Davis
Town Clerk	Gail Carter
Finance Director	Mary J. Bopp
Fire Chief	Wayne Mishak
Police Chief	H. H. Coffield
Public Utilities Director	Kent Mishak
Public Works Director	David Ketner

FACTS AND INFORMATION ABOUT THE TOWN OF CHINA GROVE, NORTH CAROLINA

LOCATION

China Grove is located in the heart of the beautiful Piedmont area of North Carolina, the industrial heart of the state. China Grove is located in Rowan County, midway between Charlotte and Winston Salem.

CLIMATE

The climate of the China Grove area is moderate, a definite advantage to those who live and work here. The massive mountains of Western North Carolina form a natural barrier against the cold East-West winds. While definitely southern climate, China Grove is far enough North, and has a sufficient altitude to escape the humid summers of many other southern regions. Extremes in climate are very short lived. In winter the high temperature is about 50 degrees, with a low around 32 degrees. The total snowfall is normally about 6 inches each year. In the summer, the high averages about 87 degrees, with a low of 66 degrees.

POPULATION

The population of the Town of China Grove has increased steadily during the past decade. This is due to both annexations and internal growth stimulated by the local economy. Population currently is 4,208.

HISTORY

The place at which China Grove stands was once a large farm belonging to Richard Harris. Most people insist that the name "China Grove" derives from a very popular grove of chinaberry trees that extended from South China Grove on through what is presently "downtown." The grove was located next to the old depot, which was dismantled in 1974. The grove provided welcomed shade for weary travelers and horses, especially during those hot summer days. Until about 1920 there were remnants of this grove, but the few surviving trees apparently died from abuse created by traffic and the old depot.

The Town applied to the North Carolina Legislature for a charter, which was granted on March 11, 1889. It is assumed there was a settlement here in China Grove as early as 1710. The Town was first known as Savits Mill, named after George Savits. Then, in 1846, the name was changed to Lutherville, but in 1849, it was given the name as we know it now, China Grove.

China Grove had its beginnings prior to the American Revolution. The town served as an early stagecoach stop. One claim to fame is that the first Rural Free Delivery Mail was made in North Carolina at the China Grove Post Office on October 23, 1896. It was only the second RFD made in the United States.

GOVERNMENT

The Town of China Grove's government is organized according to the Council-Manager form of government. The Town Council, together with the Mayor, constitutes the governing body of the Town. The five (5) Council Members and Mayor are elected to serve four (4) year terms of office. The Mayor presides at Town Council meetings. Also, a Mayor Pro Tem is elected by Town Council members from five (5) to serve as Mayor during his absence or disability.

The Town Council appoints the Town Manager to serve as the Town's Chief Executive Officer. The Town Manager is responsible for implementing the policies of the Town Council, directing business and administrative procedures and developing departmental leaders. At the present time, the Town Manager is assisted by six (6) staffed departments: Administration, Finance, Public Works, Public Utilities, Public Safety and Community Development and Planning. The Town provides a full range of municipal services allowable under State law including law enforcement, fire protection, zoning and code enforcement, recreation centers and parks, street maintenance and water and sewer systems.

UTILITIES

The Town of China Grove owns and operates its own water distribution and sewer collection systems. The Town's water supply is from three deep-bore wells with supplemental water from the City of Salisbury. The Town's sanitary sewer is treated by the City of Salisbury

at their Grant's Creek sewage treatment plant.

The Water system consist of over 28 miles of water mainlines, three wells, 235 hydrants, 1,764 water meters and three elevated storage tanks with a combined capacity of 475,000 gallons. The system was designed and is upgraded periodically to assure maximum fire protection to all parts of town. The average daily water usage for FY04 was 324,000 gallons per day. The water system serves the area inside and extends just outside the corporate limits of town.

The Town's sewer collection system consist of over twenty seven miles of collection mains, four lift stations, ten outfall flow monitoring meters and hundreds of manholes. The average daily sewer collection for the FY04 was 321,000 gallons per day. The sewer collection system serves the area inside and extends just outside the corporate limits of town.

Other utilities are provided by Duke Energy, Piedmont Natural Gas Company, Time Warner Cable, CTC Communications and Time Warner Cable.

TRANSPORTATION

China Grove, nearly centered geographically in North Carolina, is located off Interstate 85, 35 miles north of Charlotte, 61 miles South of Greensboro and 48 miles South of Winston Salem. It is the crossroads of I-85, U.S. 29, 52, and NC 152. The seaports of Wilmington, Morehead City, Charleston and Norfolk are less than a one-day truck haul away.

Two major commercial airports are within a one-hour drive of China Grove – Charlotte Douglas International in Charlotte and Piedmont Triad International in Greensboro. Rowan County Airport is within 15 miles, providing hangar space and private plane servicing.

Amtrak provides rail transportation with service on the Piedmont and the Carolinian from New York City to Charlotte, North Carolina. Arrivals and departures are from The Depot in Salisbury, North Carolina.

EDUCATION

China Grove is home to China Grove Elementary School and China Grove Middle School. Both are public schools within the Rowan Salisbury School District. Under construction is Jesse C. Carson High School located off NC 152. Conveniently located in Salisbury are three colleges: Rowan-Cabarrus Community College, Catawba College and Livingstone College.

COMMUNITY FACILITIES

China Grove is served by two (2) local newspaper delivery services, the Salisbury Post and the Independent Tribune. One (1) radio station provides for local programming.

The Town provides four (4) parks and facilities for public use.

Available to rent for personal use is the China Grove Community Building. It is used by the Rowan Senior Services every day for lunch to senior citizens. Facilities at the Community Building provide children and adults alike with

playground equipment, picnic areas and tennis courts.

Hanna Park is located centrally in downtown and serves as a pleasurable place to enjoy the downtown scenery. Westside Park and Westhaven Park are community parks with recreational equipment for local neighborhood children.

SPECIAL EVENTS

Southern Rowan Christmas Parade, Inc. has brought in the holiday season in the towns of China Grove and Landis for more than 25 years. The parade is on the Tuesday before Thanksgiving each November.

Farmer's Day is held the third Saturday in July. Nearly 35,000 people visit China Grove to enjoy live entertainment on three stages, sample hundreds of craft and homemade food booths, participate in special children's games and activities, and attend an evening street dance. This tradition, more than two decades old, is sponsored by the China Grove Board of Trade. This large-scale annual event is carefully orchestrated by dedicated citizens and business representatives, to enable area residents to experience the true spirit of China Grove.

SHERRILL & SMITH, CPAs, PA

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
Town Council
Town of China Grove, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of China Grove, North Carolina as of and for the year ended June 30, 2005, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of China Grove's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the Town of China Grove, North Carolina as of June 30, 2005, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 30, 2005 on our consideration of the Town of China Grove's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Schedule of Employer Contributions on pages 17 through 28 and 56 and 57 respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Town of China Grove, North Carolina. The introductory information, combining, and individual nonmajor fund financial statements and schedules and the statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory information and the statistical tables have not been subjected to the auditing procedures applied in the audit of basic financial statements and, accordingly, we express no opinion on them.

Sherrill & Smith, CPAs, PA

August 30, 2005

Management's Discussion and Analysis

As management of the Town of China Grove, we offer readers of the Town of China Grove's financial statements this narrative overview and analysis of the financial activities of the Town of China Grove for the fiscal year ended June 30, 2005. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the town's financial statements, which follow this narrative.

Financial Highlights

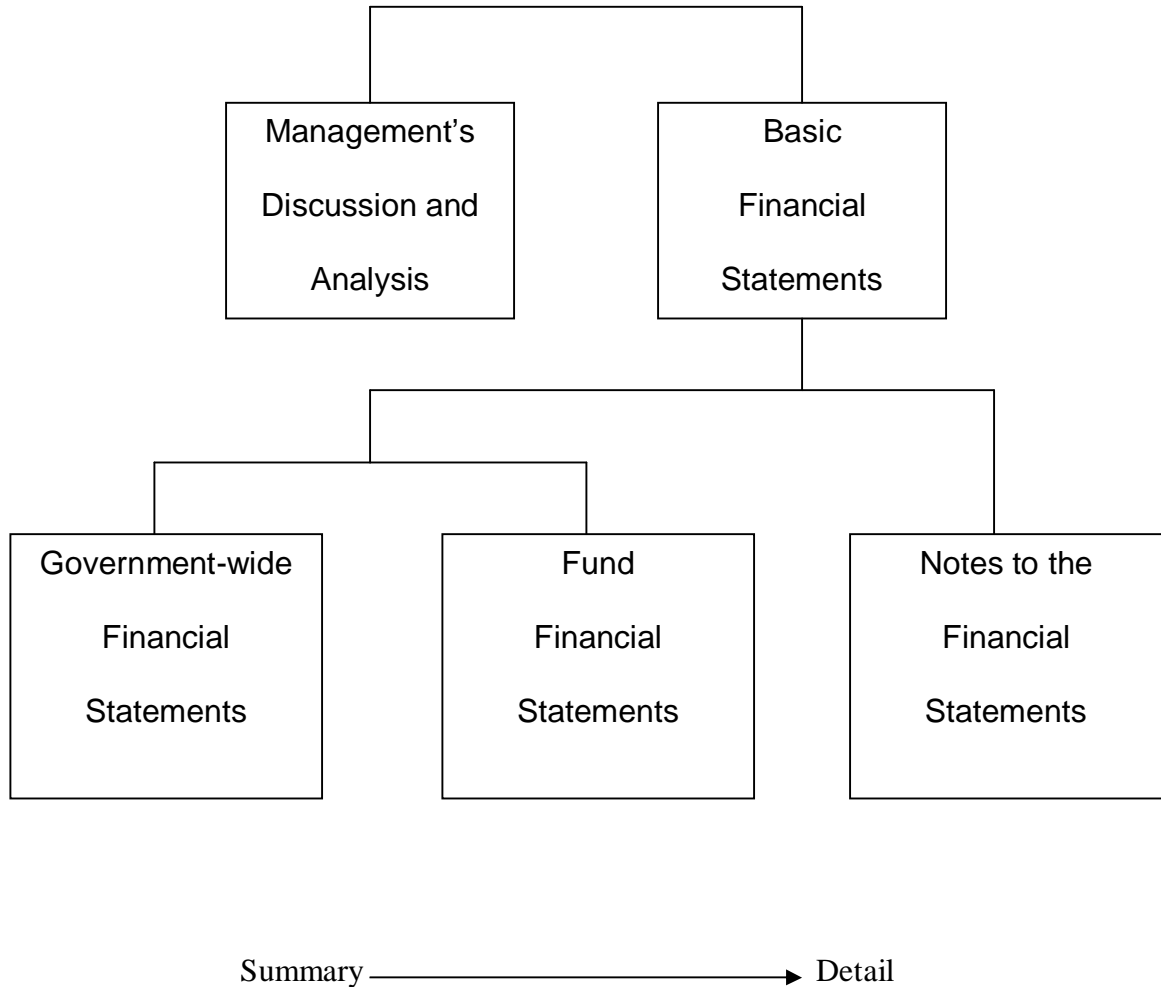
- The assets of the Town of China Grove *exceeded* its liabilities at the close of the fiscal year by \$ 4,693,555 (*net assets*).
- The government's total net assets increased by \$ 768,330, primarily due to increases in the business-type activities net assets and a decrease in the total government liabilities.
- As of the close of the current fiscal year, the Town of China Grove's governmental funds reported combined ending fund balances of \$ 1,601,213 an increase of \$ 282,347 in comparison with the prior year. Approximately 49.56 percent of this total amount, or \$ 793,498, is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$ 732,502 or 38.11 percent of total general fund expenditures for the fiscal year.
- The Town of China Grove's total debt decreased by \$ 293,661 (6.36 %) during the current fiscal year. The key factors in this decrease were early payoff on a loan made in 2002 to purchase Utility and Public Works Trucks, and early pay off of annexation payments to Bostian Heights Fire Department.
- The Town of China Grove has seen a steady decline in water consumption for the last few years. This drop in consumption can be attributed to conservation measures begun during the drought that ended in 2004. Also in 2004, the Town of China Grove raised utility rates approximately fifty (50%). This substantial rate increase caused customers to continue conservation measures begun in previous years. This trend has developed into lower than anticipated water and sewer sales revenues.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of China Grove's basic financial statements. The town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of China Grove.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the town's financial status.

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the town's financial status as a whole.

The two government-wide statements report the town's net assets and how they have changed. Net assets are the difference between the town's assets and total liabilities. Measuring net assets is one way to gauge the town's condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the town's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the town charges customers to provide. These include the water and sewer services offered by the Town of China Grove. The Town of China Grove does not have any component units.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements (see Figure 2) provide a more detailed look at the town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of China Grove like all other governmental entities in North Carolina uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the town's budget ordinance. All of the funds of the Town of China Grove can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual*

Management Discussion and Analysis

Town of China Grove

accounting that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the town's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of China Grove adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the town, the management of the town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the town has complied with the budget ordinance and whether or not the town has succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is resented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds – The Town of China Grove has one kind of proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of China Grove uses enterprise funds to account for its water and sewer activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 12 through 29 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of China Grove's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 30 of this report.

Government-Wide Financial Analysis

The Town of China Grove's Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 1,764,375	\$ 1,490,876	\$ 158,449	\$ 218,964	\$ 1,922,824	\$ 1,709,840
Capital assets	726,631	734,852	6,367,873	6,097,967	7,094,504	6,832,819
Total assets	2,491,006	2,225,728	6,526,322	6,316,931	9,017,328	8,542,659
Long-term liabilities outstanding	328,894	407,687	3,645,543	3,934,164	3,974,437	4,341,851
Other liabilities	86,589	52,255	262,747	223,328	349,336	275,583
Total liabilities	415,483	459,942	3,908,290	4,157,492	4,323,773	4,617,434
Net assets:						
Invested in capital assets, net of related debt	431,285	288,253	2,733,713	2,175,321	3,164,998	2,463,574
Restricted	249,056	1,060,580	-	-	249,056	1,060,580
Unrestricted	1,395,182	416,953	(115,681)	(15,882)	1,279,501	401,071
Total net assets	\$ 2,075,523	\$ 1,765,786	\$ 2,618,032	\$ 2,159,439	\$ 4,693,555	\$ 3,925,225

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of China Grove exceeded liabilities by \$ 4,693,555 as of June 30, 2005. The town's net assets increased by \$ 768,330 for the fiscal year ended June 30, 2005. However, the largest portion (67.43%) reflects the town's investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. The Town of China Grove uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of China Grove's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of China Grove's net assets (5.31%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$ 1,279,501 is unrestricted.

Management Discussion and Analysis
Town of China Grove

Town of China Grove's Changes in Net Assets
Figure 3

	Governmental Activities		Business Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 14,076	\$ 8,094	\$ 1,850,311	\$ 2,024,946	\$ 1,864,387	\$ 2,033,040
Operating grants and contributions	217,647	278,480	409,156	27,252	626,803	305,732
General revenues:						
Property taxes	976,306	979,139	-	-	976,306	979,139
Grants and contributions not restricted to specific programs	840,961	774,747	-	-	840,961	774,747
Other	51,260	43,467	11,897	2,351	63,157	45,818
Total revenues	2,100,250	2,083,927	2,271,364	2,054,549	4,371,614	4,138,476
Expenses:						
General government	340,493	326,728	-	-	340,493	326,728
Public safety	744,031	895,431	-	-	744,031	895,431
Transportation	67,704	174,335	-	-	67,704	174,335
Environmental protection	544,948	485,858	-	-	544,948	485,858
Economic and physical development	31,182	24,377	-	-	31,182	24,377
Cultural and recreation	48,089	67,566	-	-	48,089	67,566
Interest on long-term debt	14,066	17,282	-	-	14,066	17,282
Water and sewer	-	-	1,812,771	1,747,411	1,812,771	1,747,411
Total expenses	1,790,513	1,991,577	1,812,771	1,747,411	3,603,284	3,738,988
Increase in net assets before cumulative change in application of captilization	309,737	92,350	458,593	307,138	768,330	399,488
Cumulative change in application of capitilazation policy	-	-	-	(120,331)	-	(120,331)
Increase in net assets	309,737	92,350	458,593	186,807	768,330	279,157
Net assets, July 1	1,765,786	1,673,436	2,159,439	1,972,632	3,925,225	3,646,068
Net assets, June 30	\$ 2,075,523	\$ 1,765,786	\$ 2,618,032	\$ 2,159,439	\$ 4,693,555	\$ 3,925,225

Management Discussion and Analysis
Town of China Grove

Governmental activities. Governmental activities increased the town's net assets by \$ 309,737, thereby accounting for 40.31% of the total growth in the net assets of the Town of China Grove. Key elements of this increase are as follows:

- Unnecessary expenditures were minimized or eliminated.
- Approximately \$300,000 from Business-type activities was repaid to the General Fund.

Business-type activities: Business-type activities increased the Town of China Grove's net assets by \$ 458,593, accounting for 59.69% of the total growth in the government's net assets. Key elements of this increase are as follows:

- Revenues increased due to a 2.9% increase in utility rates
- Capital projects were delayed or canceled due to a utility system transfer study conducted with the Salisbury-Rowan Utilities.

Financial Analysis of the Town's Funds

As noted earlier, the Town of China Grove uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Town of China Grove's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the town's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the town. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$ 732,502, while total fund balance reached \$ 1,540,217. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 38.11 percent of total General Fund expenditures, while total fund balance represents 80.13 percent of that same amount.

At June 30, 2005, the governmental funds of the Town of China Grove reported a combined fund balance of \$1,601,213, a 21.41 percent increase over last year. Included in this change in fund balance are increases in fund balance in both the General and Capital Projects Funds.

General Fund Budgetary Highlights: During the fiscal year, the Town of China Grove revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Expenditures substantially decreased in the Administration department from the previous year, however expenditures increased substantially in the Fire department, Governing Board, and the Public Works department due to shifting operational needs such as repair and maintenance, and miscellaneous items that occurred throughout the year. Staff recognizes that these shifts in priorities and need occur each year, and that the budget ultimately serves as a guide to what is expected during the upcoming twelve months. As the Town's record keeping improves over previous years, the Town can better prepare for these unforeseen shifts.

Proprietary Funds. The town's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer District at the end of the fiscal year amounted to \$ (115,681). The total growth in net assets for the fund was \$ 458,593. Other factors concerning the finances of these two funds have already been addressed in the discussion of the town's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of China Grove's investment in capital assets for its governmental and business-type activities as of June 30, 2005, totals \$ 7,094,504 (net of accumulated depreciation). These assets include buildings, roads, land, machinery and equipment, and vehicles.

The Town of China Grove constructed a six inch water line on Harris Street. This project was an emergency installation and repair that was desperately needed to improve water quality and water flow along Chapel Street, Blackwelder Street, and Keller Street. The Town of China Grove also constructed a water line extending from the Hitachi Metals plant, to the new High School currently under construction. This water line was a twelve inch (12") line along Highway 152, and an eight inch (8") waterline along Kress Ventures Drive. This project was funded completely by the Rowan-Salisbury School system. Upon completion, ownership of the line was turned over to the Town of China Grove. The Town of China Grove also purchased a back hoe and one police cruiser. Both of these items were planned, and funds were allocated in the budget for this equipment.

Town of China Grove's Capital Assets

Figure 4

	(net of depreciation)					
	Governmental		Business-type		Total	
	Activities		Activities			
	2005	2004	2005	2004	2005	2004
Land	\$ 38,912	\$ 38,912	\$ -	\$ -	\$ 38,912	\$ 38,912
Buildings and system	192,999	201,972	-	-	192,999	201,972
Improvements other than buildings	48,819	52,343	-	-	48,819	52,343
Machinery and equipment	445,901	441,625	-	-	445,901	441,625
Infrastructure	-	-	6,218,753	5,916,310	6,218,753	5,916,310
Vehicles and motorized equipment	-	-	149,120	181,657	149,120	181,657
Total	\$ 726,631	\$ 734,852	\$ 6,367,873	\$ 6,097,967	\$ 7,094,504	\$ 6,832,819

Additional information on the town's capital assets can be found in the Notes to The Financial Statements III, A.3.

Long-term Debt. As of June 30, 2005, the Town of China Grove had no bonded debt.

The Town of China Grove's total debt decreased by \$ 358,415 (9.1%) during the past fiscal year. The decrease in long term debt is due to the fact that the Town of China Grove paid off a loan for five public works and public utilities vehicles. This was done to avoid unnecessary interest charges. The Town of China Grove also paid off an obligation to the Bostian Heights fire department. This obligation dated back to when China Grove annexed the Hitachi Metals industrial plant. By paying this obligation early, additional funds will be available in future years to the Town of China Grove.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of China Grove is \$ 19,560,051. The town has \$ 0 in bonds authorized but un-issued at June 30, 2005.

During the past fiscal year, the town paid off some existing debt. In June 2005, the town paid the remaining debt of a loan purchase agreement originally borrowed in March of 2002. Paying off the debt early saved the town approximately \$325 in interest, and freed up some money in the 2006 budget for other expenditures. Additional information regarding the Town of China Grove's long-term debt can be found in Notes to the Financial Statements III.B.5.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the Town of China Grove.

- Low unemployment. Rowan County's unemployment rate in September of 2005 was 5.0%. This is below the State unemployment average of 5.3%.
- Stable manufacturing sector. All of the Town of China Grove's major employers have maintained a steady workforce, and have not announced any intended layoffs.
- Occupancy Rates on office and retail space. The downtown area has maintained an occupancy rate of approximately 95% while we have seen a transition from service oriented businesses to more retail oriented businesses.

Management Discussion and Analysis

Town of China Grove

- **New Construction.** China Grove has seen new office and retail space constructed within the past twelve months. This is occurring in both the Downtown area and on Highway 29, the Town's major commercial corridor.
- **Announcement of Biotechnology center.** Private Financier David Murdock recently announced a plan to establish a biotechnology research campus in Kannapolis, North Carolina, that will create 5,000 hi-tech jobs and create spin-off employment of approximately 30,000 jobs. This site is approximately 5 miles from the Town of China Grove.

Budget Highlights for the Fiscal Year Ending June 30, 2006

Governmental Activities: Operating revenues in the General Fund have remained fairly consistent over the past several years. This year, the tax rate will remain at \$.40 per \$100 of value. The current trend is that the Town is relying more and more on ad valorem tax revenues. Total property tax revenues are anticipated to be \$1,003,620. This is 50% of the total General Fund Revenue. The remaining revenue streams for the Town primarily include Sales Tax and Utility Franchise Taxes. These two revenues are projected to bring in \$860,000 or 42% of the total General Fund Revenues. Combined, these three revenue sources account for approximately 92% of the General Fund Revenues.

This coming years General Fund budget is approximately \$80,000 less than anticipated revenues from the previous year's budget. Conservative budgeting practices by the Mayor and Town Council have afforded the Town the opportunity to fund its needs, while maintaining a steady tax rate. There are several key capital expenditures planned in the General Fund. These expenditures include two police cruisers, upgrades for fire department air packs, a brush chipper, and playground equipment at the community building.

Business – type Activities: Operating revenues in the Utility Fund come primarily from water and sewer sales. Additional revenue comes from tap fees and reconnection fees. Water rates will increase from \$6.50 per 1000 gallons to \$6.70 per 1000 gallons. Sewer rates will increase from \$7.20 per 1000 gallons to \$7.40 per 1000 gallons. This is an increase of 2.9%. As mentioned previously, this is in direct response to the Town of Salisbury's utility rate increase of approximately 8.3%. Water and sewer sales account for 35% of the total fund's revenue.

The coming fiscal year will see the construction of several projects that have been in the planning stage for several years. The Town will begin construction on a \$1.7 million sewer line that will serve the new high school off of Kress Ventures Drive. The Town will also begin construction on its water and sewer line obligations for areas of town annexed in 2003. Total estimated cost for those projects is \$1,266,661. Completion of these projects will greatly enhance the ability of China Grove to continue growing its utility system.

Management Discussion and Analysis
Town of China Grove

Requests for Information

This report is designed to provide an overview of the town finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to

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205 Swink Street
China Grove, NC 28023

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edavis@chinagrovenc.gov

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF NET ASSETS
June 30, 2005

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,128,805	\$ 287,472	\$ 1,416,277
Taxes receivable (net)	60,710	-	60,710
Accrued interest receivable	16,492	-	16,492
Accounts receivable (net)	8,546	183,063	191,609
Due from other governments	237,737	-	237,737
Internal balances	312,086	(312,086)	-
Total current assets	<u>1,764,376</u>	<u>158,449</u>	<u>1,922,825</u>
Capital assets:			
Land, non-depreciable improvements, and construction in progress	38,912	163,789	202,701
Other capital assets, net of depreciation	<u>687,719</u>	<u>6,204,084</u>	<u>6,891,803</u>
Total capital assets	<u>726,631</u>	<u>6,367,873</u>	<u>7,094,504</u>
Total assets	<u>2,491,007</u>	<u>6,526,322</u>	<u>9,017,329</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	83,488	218,753	302,241
Accrued interest payable	340	7,837	8,177
Unearned revenue	2,762	-	2,762
Customer deposits	-	36,157	36,157
Long-term liabilities:			
Due within one year	84,338	264,911	349,249
Due in more than one year	<u>244,556</u>	<u>3,380,632</u>	<u>3,625,188</u>
Total liabilities	<u>415,484</u>	<u>3,908,290</u>	<u>4,323,774</u>
Net Assets			
Invested in capital assets, net of related debt	431,285	2,733,713	3,164,998
Restricted for:			
Other purposes	249,056	-	249,056
Unrestricted	<u>1,395,182</u>	<u>(115,681)</u>	<u>1,279,501</u>
Total net assets	<u>\$ 2,075,523</u>	<u>\$ 2,618,032</u>	<u>\$ 4,693,555</u>

Town of China Grove
Statement of Activities
For the Year Ended June 30, 2005

Exhibit 2

Functions/Programs	Expenses	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Primary Government		Total
						Governmental Activities	Business-type Activities	
Primary government:								
Governmental Activities:								
General government	\$ 340,493	\$ -	\$ -	\$ -		\$ (340,493)	\$ -	\$ (340,493)
Public Safety	744,031	5,013	96,714	-		(642,304)	-	(642,304)
Transportation	67,704	-	120,933	-		53,229	-	53,229
Environmental protection	544,948	2,648	-	-		(542,300)	-	(542,300)
Economic and physical development	31,182	1,425	-	-		(29,757)	-	(29,757)
Cultural and recreation	48,089	4,990	-	-		(43,099)	-	(43,099)
Interest on long-term debt	14,066	-	-	-		(14,066)	-	(14,066)
Total governmental activities (See Note 1)	1,790,513	14,076	217,647	-		(1,558,790)	-	(1,558,790)
Business-type activities:								
Water and sewer	1,812,771	1,850,311	409,156	-		-	446,696	446,696
Total business-type activities	1,812,771	1,850,311	409,156	-		-	446,696	446,696
Total primary government	\$ 3,603,284	\$ 1,864,387	\$ 626,803	\$ -		(1,558,790)	446,696	(1,112,094)
General revenues:								
Taxes:								
Property taxes, levied for general purpose						976,306	-	976,306
Grants and contributions not restricted to specific programs						840,961	-	840,961
Unrestricted investment earnings						14,772	11,897	26,669
Miscellaneous						36,488	-	36,488
Total general revenues and transfers						1,868,527	11,897	1,880,424
Change in net assets						309,737	458,593	768,330
Net assets, beginning						1,765,786	2,159,439	3,925,225
Net assets, ending						\$ 2,075,523	\$ 2,618,032	\$ 4,693,555

TOWN OF CHINA GROVE, NORTH CAROLINA
Balance Sheet
Governmental Funds
June 30, 2005

Exhibit 3

	General Fund	Capital Reserve Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 1,067,809	\$ 60,996	\$ 1,128,805
Taxes receivable (net)	60,710	-	60,710
Account receivable (net)	8,546	-	8,546
Due from other governments	237,737	-	237,737
Due from other funds	312,086	-	312,086
Total assets	1,686,888	60,996	1,747,884
Liabilities and Fund Balances			
Liabilities			
Accounts payable and accrued liabilities	83,489	-	83,489
Deferred revenue	63,182	-	63,182
Total liabilities	146,671	-	146,671
Fund balances			
Reserved by State statute	558,659	-	558,659
Reserved for streets - Powell Bill	249,056	-	249,056
Unreserved, General Fund	732,502	-	732,502
Unreserved, reported in:			
Capital Reserve Fund	-	60,996	60,996
Total fund balances	1,540,217	60,996	1,601,213
Total liabilities and fund balances	\$ 1,686,888	\$ 60,996	
Amounts reported for governmental activities in the statement of activities are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Land, non-depreciable improvements, and construction in progress		38,912	
Gross capital assets at historical cost		2,174,638	
Accumulated depreciation		(1,486,919)	726,631
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are deferred			16,492
Liabilities for earned but deferred revenues in fund statements.			60,420
Some liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.			(329,233)
Net assets of governmental activities			\$ 2,075,523

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Year Ended June 30, 2005

Exhibit 4

Revenues	General Fund	Capital Reserve Fund	Total Governmental Funds
Ad valorem taxes	\$ 1,019,602	\$ -	\$ 1,019,602
Unrestricted intergovernmental	840,961	-	840,961
Restricted intergovernmental	217,646	-	217,646
Permits and fees	14,076	-	14,076
Investment earnings	13,816	956	14,772
Miscellaneous	36,490	-	36,490
Total Revenues	2,142,591	956	2,143,547
Expenditures			
Current	332,829	-	332,829
Public safety	743,532	-	743,532
Transportation	66,684	-	66,684
Environmental protection	581,734	-	581,734
Economic and physical development	31,182	-	31,182
Cultural and recreational	44,582	-	44,582
Debt Service			
Principal retirement	107,338	-	107,338
Interest	14,179	-	14,179
Total expenditures	1,922,060	-	1,922,060
Excess (deficiency) of revenues over expenditures	220,531	956	221,487
Other financing sources (uses):			
Internal transfers	(30,000)	30,000	-
Proceeds from borrowing	60,860	-	60,860
Total other financing sources (uses)	30,860	30,000	60,860
Net change in fund balance	251,391	30,956	282,347
Fund balances, beginning	1,288,826	30,040	1,318,866
Fund balance, end	\$ 1,540,217	\$ 60,996	\$ 1,601,213

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Year Ended June 30, 2005

Exhibit 4

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$	282,347
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period

Capital outlay expenditures which were capitalized	90,498		
Depreciation expense for government assets	<u>(98,720)</u>		(8,222)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund.

Change in deferred revenue for tax revenues		(43,296)
---	--	----------

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in treatment of long-term debt and related items.

46,478

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as

Compensated absences		(3,481)	
Accrued interest expense		113	
Net pension obligation		<u>35,798</u>	

Total changes in net assets of governmental activities	\$	<u>309,737</u>
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TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
For the Year Ended June 30, 2005

Exhibit 5

		General Fund			Variance with Final Budget- Positive (Negative)
		Original	Final	Actual Amounts	
Revenues:					
Ad valorem taxes		\$ 1,006,000	\$ 1,006,000	\$ 1,019,602	\$ 13,602
Unrestricted intergovernmental		837,500	837,500	840,961	3,461
Restricted intergovernmental		210,700	210,700	217,646	6,946
Permits and fees		7,000	7,000	14,076	7,076
Investment earnings		-	-	13,816	13,816
Miscellaneous		21,000	21,000	36,490	15,490
Total revenues		2,082,200	2,082,200	2,142,591	60,391
Current					
General government		343,277	344,277	332,829	11,448
Public safety		791,100	824,100	743,532	80,568
Transportation		117,000	117,000	66,684	50,316
Environmental protection		483,623	638,083	581,734	56,349
Economic and physical development		51,900	51,900	31,182	20,718
Cultural and recreational		51,600	51,600	44,582	7,018
Debt service					
Principal retirement		76,100	86,100	107,338	(21,238)
Interest		-	-	14,179	(14,179)
Total expenditures		1,914,600	2,113,060	1,922,060	191,000
Revenues over (under) expenditures		167,600	(30,860)	220,531	251,391
Other financing sources (uses):					
Transfer to utility fund		(137,600)	-	-	-
Transfer to capital reserve		(30,000)	(30,000)	(30,000)	-
Collection on loan to Utility Fund		-	305,000	-	(305,000)
Proceeds from borrowing		-	60,860	60,860	-
Fund balance appropriated		-	(305,000)	-	305,000
Total other financing sources (uses)		(167,600)	30,860	30,860	-
Net change in fund balance		\$ -	\$ -	251,391	\$ 251,391
Fund balance, beginning				1,288,826	
Fund balance, end				\$ 1,540,217	

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2005

Exhibit 6

Assets	Utility Fund	Total Proprietary Funds
Current Assets:		
Cash and cash equivalents	\$ 287,472	\$ 287,472
Accounts receivable (net) - customers	143,155	143,155
Accounts receivable (net) - other	39,908	39,908
	<hr/>	<hr/>
Total current assets	470,535	470,535
Capital Assets:		
Capital assets, net of depreciation	6,367,873	6,367,873
	<hr/>	<hr/>
Total Assets	6,838,408	6,838,408
	<hr/>	<hr/>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	218,753	218,753
Accrued interest payable	7,837	7,837
Customer deposits	36,157	36,157
Installment purchase - current	260,893	260,893
Compensated absences - current	4,018	4,018
Due to other funds	312,086	312,086
	<hr/>	<hr/>
Current liabilities	839,744	839,744
	<hr/>	<hr/>
Noncurrent Liabilities		
Long-term debt - non-current	3,373,267	3,373,267
Compensated absences - non-current	7,365	7,365
	<hr/>	<hr/>
Non current liabilities	3,380,632	3,380,632
	<hr/>	<hr/>
Total liabilities	4,220,376	4,220,376
	<hr/>	<hr/>
Net Assets		
Invested in capital assets, net of related debt	2,733,713	2,733,713
Unrestricted	(115,681)	(115,681)
	<hr/>	<hr/>
Total net assets	\$ 2,618,032	\$ 2,618,032
	<hr/>	<hr/>

The notes to the financial statement are an integral part of this statement.

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2005

Exhibit 7

	Utility Fund	Total Proprietary Funds
Operating revenues:		
Charges for services	\$ 1,850,311	\$ 1,850,311
Water and sewer taps	11,635	11,635
Other operating revenues	2,497	2,497
	<u>1,864,443</u>	<u>1,864,443</u>
Total operating revenues		
	<u>1,864,443</u>	<u>1,864,443</u>
Operating expenses:		
Water distribution	773,401	773,401
Sewer collection	713,958	713,958
Depreciation	224,394	224,394
	<u>1,711,753</u>	<u>1,711,753</u>
Total operating expenses		
	<u>1,711,753</u>	<u>1,711,753</u>
Operating income (loss)	<u>152,690</u>	<u>152,690</u>
Nonoperating revenues (expenses):		
Investment earnings	11,897	11,897
Interest expense	(101,018)	(101,018)
Restricted intergovernmental funds		
Rowan County	69,728	69,728
Rowan-Salisbury Schools	325,296	325,296
	<u>305,903</u>	<u>305,903</u>
Total nonoperating revenues (expenses)		
	<u>305,903</u>	<u>305,903</u>
Change in net assets	458,593	458,593
Total net assets, beginning	<u>2,159,439</u>	<u>2,159,439</u>
Total net assets, ending	<u>\$ 2,618,032</u>	<u>\$ 2,618,032</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005

Exhibit 8

Cash flows from operating activities:	
Cash received from customers	\$ 1,934,363
Cash paid for goods and services	(1,358,393)
Cash paid to or on behalf of employees	(138,697)
Customer deposits received and returned	<u>3,584</u>
Net cash provided (used) by operating activities	<u>440,857</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(478,167)
Principal payments on installment purchase	(288,485)
Interest paid on installment purchase	(101,629)
Amount due to other funds	(305,001)
Restricted intergovernmental funds	<u>395,024</u>
Net cash provided by (used in) capital and related financing activities	<u>(778,258)</u>
Cash flows from investing activities:	
Interest on investments	<u>11,897</u>
Net increase (decrease) in cash and cash equivalents	(325,504)
Balance, beginning	<u>612,976</u>
Balance, ending	<u><u>287,472</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income (loss)	<u>152,690</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	224,394
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	69,920
(Increase) decrease in accounts receivable-other	(29,908)
Increase (decrease) in accounts payable and accrued liabilities	20,177
Increase (decrease) in customer deposits	<u>3,584</u>
Total adjustments	<u>288,167</u>
Net cash provided by (used in) operating activities	<u><u>\$ 440,857</u></u>

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005

I. Summary of Significant Accounting Policies

The accounting policies of the Town of China Grove conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town of China Grove is a municipal corporation, which is governed by an elected mayor and a five-member Board of Aldermen. These financial statements present financial information of the Town as required by generally accepted accounting principles.

B. Basis of Presentation

Government-wide Statements- The statement of net assets and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements- The fund financial statements provide information about the Town's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities

The Town reports the following major governmental funds:

General Fund- The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and sanitation services.

Capital Reserve Fund- This fund is used to accumulate cash for the purchase of a public safety vehicle.

The Town reports the following major enterprise funds:

Utility Fund- This fund is used to account for the Town's water and sewer operations.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Town are maintained during the year using the modified accrual basis of accounting

Government-wide and Proprietary Fund Financial Statements- The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements- Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Rowan County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of China Grove. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Rowan County from March 2004 through February 2005 apply to the fiscal year ended June 30, 2005. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues. For vehicles registered under the annual system, taxes are due on May 1 of each year. For those vehicles registered and billed under the annual system, uncollected taxes are reported as a receivable on the financial statements and are offset by deferred revenues because the due date and the date upon which interest begins to accrue passed prior to June 30. The taxes for vehicles registered annually that have already been collected as of year-end are also reflected as deferred revenues at June 30, 2005 because they are intended to finance the Town's operations during the 2006 fiscal year.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues.

As permitted by generally accepted accounting principles, the Town has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. A project ordinance is adopted for Enterprise Fund Capital Project Funds, which is consolidated with the operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than 10%. All amendments must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town may designate as, an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

The Town's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

3. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2001. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005

4. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$10,000; Buildings, improvements, substations, lines, and other plant and distribution systems, \$15,000; infrastructure, \$20,000; furniture and equipment, \$5,000; and vehicles, \$10,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Infrastructure	30 – 40
Buildings	50
Improvements	25
Vehicles	5 - 6
Furniture and equipment	10
Computer equipment	3

5. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

6. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policy provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005

7. Net Assets/Fund Balances

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

In the governmental fund financial statements, reservations of fund balance represent amounts that cannot be appropriated or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

State law [G.S. 159-13(b)(16)] restricts appropriation of fund balance or fund equity for the subsequent year's budget to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts as those amounts stand at the close of fiscal year preceding the budget year.

The governmental fund types classify fund balances as follows:

Reserved

Reserved By State Statute- portion of fund balance, in addition to reserves for encumbrances, which is not available for appropriation under State law [G.S. 159-8(a)]. This amount is usually comprised of accounts receivable and interfund receivables which have not been offset by deferred revenues.

Reserved for streets - Powell Bill- portion of fund balance that is available for appropriation but legally segregated for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill Funds.

Unreserved

Designated for subsequent year's expenditures- portion of total fund balance available for appropriation that has been designated for the adopted 2004-2005 budget ordinance.

Undesignated- portion of total fund balance available for appropriation that is uncommitted at year-end.

II. Stewardship, Compliance, and Accountability

A. Material Violations of Finance-Related Legal and Contractual Provisions

1. Noncompliance with North Carolina General Statutes: None.

2. Contractual Violations: None.

B. Deficit Fund Balance or Retained Earnings of Individual Funds: None.

C. Excess of Expenditures Over Appropriations: For the fiscal year ended June 30, 2005, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for debt service activities by \$35,417.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005

III. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agent in the Town's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agent in the Town's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial credit risk for deposits.

At June 30, 2005, the Town's deposits had a carrying amount of \$214,775 and a bank balance of \$247,820 of which \$106,495 was covered by federal depository insurance and \$141,325 was collateralized by securities.

2. Investments

At June 30, 2005, the Town of China Grove had \$1,201,051 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005

3. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2005, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 38,912	\$ -	\$ -	\$ 38,912
Total capital assets not being depreciated	38,912	-	-	38,912
Capital assets being depreciated:				
Buildings	448,633	-	-	448,633
Equipment	1,715,342	90,498	167,925	1,637,915
Other improvements	88,090	-	-	88,090
Total capital assets being depreciated	2,252,065	90,498	167,925	2,174,638
Less accumulated depreciation for:				
Buildings	246,661	8,973	-	255,634
Equipment	1,273,717	86,222	167,925	1,192,014
Other improvements	35,747	3,524	-	39,271
Total accumulated depreciation	1,556,125	\$ 98,719	\$167,925	1,486,919
Total capital assets being depreciated, net	695,940			687,719
Governmental activity capital assets, net	\$ 734,852			\$ 726,631

Depreciation expense was charged to functions of the primary government as follows:

General government	\$ 6,545
Public safety	71,036
Transportation	1,021
Environmental protection	16,610
Cultural and recreation	3,507
Total depreciation expense	\$ 98,719

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2005, was as follows-continued:

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 163,789	\$ -	\$ 163,789
Capital assets being depreciated:				
Pumps and pump house	\$ 57,653	\$ -	\$ -	\$ 57,653
Sewer and plant lines	2,615,391	37,049	-	2,652,440
Vehicles and equipment	593,474	-	10,779	582,695
Water and sewer systems	4,454,179	293,462	-	4,747,641
Wells	51,132	-	-	51,132
Total capital assets being depreciated	7,771,829	330,511	10,779	8,091,561
Less accumulated depreciation for:				
Pumps and pump house	42,309	1,615	-	43,924
Sewer and plant lines	459,430	72,144	-	531,574
Vehicles and equipment	411,817	32,537	10,779	433,575
Water and sewer systems	714,860	117,706	-	832,566
Wells	45,446	392	-	45,838
Total accumulated depreciation	1,673,862	\$ 224,394	\$ 10,779	1,887,477
Total capital assets being depreciated, net	6,097,967			6,204,084
Business-type activities capital assets, net	<u>\$ 6,097,967</u>			<u>\$ 6,367,873</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description- The Town of China Grove contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Road, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy- Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 4.91% and 4.78%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of China Grove are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2005, 2004, and 2003 were \$34,085, \$37,692, and \$32,745, respectively. The contributions made by the Town equaled the required contributions for each year.

b. Law Enforcement Officers' Special Separation Allowance

1. Plan Description- The Town of China Grove administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2004 the Separation Allowance's membership consisted of:

Retirees receiving benefits	0
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>15</u>
Total	<u><u>15</u></u>

A separate report was not issued for the plan.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005

2. Summary of Significant Accounting Policies:

Basis of Accounting- The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

Method Used to Value Investments- No funds are set aside to pay benefits and administration costs. These expenses are paid as they come due.

3. Contributions- The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefits payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to make these payments was established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2004 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5.9% - 9.8% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include post-employment benefit increases.

Annual Pension Cost and Net Pension Obligation- The Town's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 7,243
Interest on net pension obligation	436
Adjustment to annual required contribution	<u>(338)</u>
Annual pension cost	7,341
Contributions made	<u>-0-</u>
Increase (decrease) in net pension obligation	7,341
Net pension obligation beginning of year	<u>6,018</u>
Net pension obligation end of year	<u><u>\$13,359</u></u>

For Year Ended June 30	3 Year Trend Information		Net Pension Obligation
	Annual Pension Cost (APC)	Percentage of APC Contributed	
2003	Unavailable	Unavailable	Unavailable
2004	\$ 6,018	0.00%	\$ 6,018
2005	\$ 7,341	0.00%	\$13,359

Prior to June 30, 2004, the Town chose not to have an actuarial study performed because the liability was believed to be immaterial.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description- The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy- Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2005 were \$14,844, which consisted of \$13,004 from the Town and \$1,840 from the law enforcement officers.

d. Firemen's and Rescue Squad Workers' Pension Fund

Plan Description- The State of North Carolina contributes, on behalf of the Town of China Grove, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing, multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy- Plan members are required to contribute \$10 per month to the Fund. The State, a nonemployer contributor, funds the plan through appropriations. The Town pays its members' required contributions on their behalf. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005

e. Other Post-Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest month's salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payrolls, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2005 the Town made contributions to the State for death benefits of \$850. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .11% and .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the postemployment benefit amount and the other benefit amount.

2. Deferred / Unearned Revenues

The balance in deferred / unearned revenues at year-end is composed of the following elements:

	Deferred Revenue	Unearned Revenue
Prepaid taxes (General Fund)	\$ 2,762	\$ 2,762
Taxes receivable (General Fund)	60,420	-
	<u>\$ 63,182</u>	<u>\$ 2,762</u>

3. Commitments

Salisbury Water Line- In 2002, Rowan County borrowed \$7,830,213 at 4.6% to be paid back over 10 years to finance the construction of a water line from Salisbury to Southern Rowan County. Semi-annual principal and interest payments on the note began in November of 2002. The Town of China Grove has committed to pay 11.36% of the payments which amounts to a total of \$1,104,216. At June 30, 2005 the Town's unpaid commitment amount is \$729,875. The payments are being treated as an operating expense in the Utility Fund in the year paid.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, worker's compensation coverage up to the statutory limits, and employee health coverage up to \$2 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property liability in excess of \$500,000 and \$300,000 statutory limits for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

5. Long-Term Obligations

a. Installment Purchase

The Town has borrowed \$2,831,784 from the Drinking Water Revolving Loan Program, which is administered by the State of North Carolina, to upgrade its water system. The terms of the loan state that interest will accrue at the rate of 2.6% per annum. Interest payments will be made semiannually, payable on or before May 1 and November 1 beginning November 1, 2001. The principal sum shall be repaid in equal annual installments of \$176,986.50 beginning on May 1, 2002.

The future minimum payments of the installment purchase as of June 30, 2005 are as follows:

Year Ending June 30	Business-type Activities	
	Principal	Interest
2006	\$ 176,987	\$ 55,220
2007	176,987	50,618
2008	176,987	46,017
2009	176,987	41,415
2010	176,987	36,813
2011-2015	884,935	119,642
2016-2017	353,968	9,204
	<u>\$ 2,123,838</u>	<u>\$ 358,929</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005

b. Installment Purchase

The Town has borrowed \$1,678,136 from the Clean Water Revolving Loan Program, which is administered by the State of North Carolina, to upgrade its sewer system. The terms of the loan state that interest will accrue at the rate of 2.57% per annum. Interest payments will be made semiannually, payable on or before May 1 and November 1 beginning May 1, 2004. The principal sum shall be repaid in equal annual installments of \$83,906.80 beginning on May 1, 2004.

The future minimum payments of the installment purchase as of June 30, 2005 are as follows:

Year Ending June 30	Business-type Activities	
	Principal	Interest
2006	\$ 83,907	\$ 38,815
2007	83,907	36,659
2008	83,907	34,502
2009	83,907	32,346
2010	83,907	30,190
2011-2015	419,535	113,211
2016-2020	419,535	59,301
2021-2023	251,717	23,721
	<u>\$ 1,510,322</u>	<u>\$ 368,745</u>

c. Installment Purchase

The Town entered into a finance agreement to finance the purchase of a fire truck in September 1999. The finance agreement requires monthly payments of principal and interest totaling \$4,951.30, which began in October 2000. The terms of the loan state that interest accrues at the rate of 4.5% per annum. In May 2004, the Town refinanced that agreement to reduce the rate of interest to 4.25% per annum, which reduced the required monthly payment to \$4,902.89 beginning in May of 2004.

The future minimum payments as of June 30, 2005 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2006	\$ 50,057	\$ 8,778
2007	52,226	6,608
2008	54,490	4,345
2009	56,851	1,984
2010	15,677	115
	<u>\$ 229,301</u>	<u>\$ 21,830</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005

d. Installment Purchase

The Town entered into a finance agreement to finance the purchase of a backhoe in December 2004. The finance agreement requires quarterly payments of principal and interest totaling \$5,390.24, which began in March 2005. The terms of the loan state that interest accrues at the rate of 3.75% per annum.

The future minimum payments as of June 30, 2005 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2006	\$ 19,896	\$ 1,665
2007	20,663	898
2008	10,628	152
	<u>\$ 51,187</u>	<u>\$ 2,715</u>

At June 30, 2005 the Town of China Grove, North Carolina had a legal debt margin of \$15,809,106.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005

e. Changes in Long-Term Liabilities

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005	Current Portion of Balance
Governmental activities:					
Installment purchases	\$ 303,567	\$ 60,860	\$ 83,939	\$ 280,488	\$ 69,953
Annexation agreement	23,399	-	23,399	-	-
Compensated absences	31,565	3,481	-	35,046	14,385
Net pension benefit	49,156	-	35,797	13,359	-
Governmental activities long-term liabilities	407,687	64,341	143,135	328,893	84,338
Business type activities:					
Installment purchases	3,922,646	-	288,485	3,634,161	260,893
Compensated absences	11,518	-	136	11,382	4,018
Business-type activities long-term liabilities	\$ 3,934,164	\$ -	\$ 288,621	\$ 3,645,543	\$ 264,911

C. Interfund Balances and Activity

Balances Due to/from Other Funds

Balances due to/from other funds at June 30, 2005, consist of the following:

Due to the General Fund from the Utility Fund	<u>\$312,086</u>
Due to the Utility Fund from the I-85 Corridor Sewer Capital Project Fund	<u>\$ 32,982</u>

Transfers to/from Other Funds

Transfers to/from other funds at June 30, 2005, consist of the following:

From the General Fund to the Capital Reserve Fund	<u>\$ 30,000</u>
From the Sewer Capital Project Fund to the Utility Fund	<u>\$ 796</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005

D. On-Behalf Of Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2005, the Town of China Grove has recognized on-behalf of payments for pension contributions made by the State as revenue and an expenditure of \$6,251 for the 28 volunteer firemen who perform firefighting duties for the Town's fire department. The volunteers elected to be members of the Firemen and Rescue Squad Worker's Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

TOWN OF CHINA GROVE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005

IV. Joint Venture

The Town and the members of the Town's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums which insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist firefighters in various ways. The Town obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salaries and fringe benefits made to members of the Town's fire department by the board of trustees. During the fiscal year ended June 30, 2005, the Town did not report any revenues and expenditures for these payments because no benefit payments were made through the Firemen's Relief Fund. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2005. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at Post Office 188, Farmville, North Carolina 27828.

V. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The Town has received proceeds from federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

Town of China Grove, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
12/31/99	-	Unavailable	Unavailable	0%	Unavailable	Unavailable
12/31/00	-	Unavailable	Unavailable	0%	Unavailable	Unavailable
12/31/01	-	Unavailable	Unavailable	0%	Unavailable	Unavailable
12/31/02	-	\$ 44,668	\$ 44,668	0%	Unavailable	Unavailable
12/31/03	-	49,156	49,156	0%	\$ 292,565	16.80%
12/31/04	-	23,478	23,478	0%	\$ 243,835	9.63%

Town of China Grove, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2000	Unavailable	0.0%
2001	Unavailable	0.0%
2002	Unavailable	0.0%
2003	Unavailable	0.0%
2004	Unavailable	0.0%
2005	\$7,243	0.0%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part actuarial valuation follows:

Valuation date	12/31/2004
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	26 Years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	7.25%
Projected salary increases*	5.9 - 9.8%
*Includes inflation at	3.75%
Cost-of living adjustments	N/A

Prior to December 31, 2003, the Town elected not to have the actuarial valuation prepared as it deemed it immaterial. As a result, amounts are not available for prior years.

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2005

	Budget	Actual	Variance Positive (Negative)
Revenues			
Ad valorem taxes			
Taxes		\$ 1,001,303	
Penalties and interest		18,299	
Total	\$ 1,006,000	1,019,602	\$ 13,602
Unrestricted intergovernmental			
Local option sales tax		619,135	
Utility franchise tax		177,365	
Cable TV franchise fee		26,733	
Beer and wine tax		17,435	
ABC profit distribution		293	
Total	837,500	840,961	3,461
Restricted intergovernmental			
Powell Bill allocation		120,933	
Public safety grants		58,243	
Controlled substance tax		1,158	
Fire tax		15,905	
Fire tax supplement		6,456	
Salisbury/Rowan Schools-SRO		8,700	
On-behalf of payments - Fire		6,251	
Total	210,700	217,646	6,946
Permits and fees			
Police fines and citations		5,013	
Zoning and development fees		1,425	
Community building rent		4,990	
Trash can fees		2,648	
Total	7,000	14,076	7,076
Investment earnings	-	13,816	13,816
Miscellaneous			
Collection fees - Duke Power		18,953	
Sale of materials		80	
Other		17,457	
Total	21,000	36,490	15,490
Total revenues	\$ 2,082,200	\$ 2,142,591	\$ 60,391

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2005

	Budget	Actual	Variance Positive (Negative)
Expenditures			
General government			
Governing body			
Governing body stipend		\$ 5,650	
Payroll tax		216	
Materials and supplies		43	
Advertising		250	
Community appearance		1,817	
Historical society		1,000	
South Rowan Public Library		1,000	
	<u>\$ 10,650</u>	<u>9,976</u>	<u>\$ 674</u>
Administration			
Salaries and wages		172,525	
Salaries and wages - part-time		1,203	
Payroll tax		13,225	
Employee benefits		22,925	
Workers compensation		694	
Professional fees-accounting		10,200	
Professional fees-legal		6,743	
Office supplies		5,723	
Materials and supplies		1,387	
Contracted services		5,548	
Technical support		11,953	
Travel and schools		10,253	
Telephone and postage		11,003	
Utilities		7,282	
Printing and codification		815	
Repair and maintenance		3,846	
Advertising		106	
Bank service fees		1,277	
Dues and subscriptions		4,139	
Miscellaneous		3,274	
Leases and maintenance		2,237	
Insurance		7,519	
Rowan County tax services		18,976	
	<u>333,627</u>	<u>322,853</u>	<u>10,774</u>
Total general government	<u>\$ 344,277</u>	<u>\$ 332,829</u>	<u>\$ 11,448</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public safety			
Police department			
Salaries and wages		\$ 265,702	
School resource officers		46,798	
Salaries and wages-overtime		7,758	
Salaries and wages-part time		930	
Payroll tax		23,179	
Benefits		54,009	
Workers compensation		15,423	
Materials and supplies		4,809	
Fuel and oil		22,388	
Uniforms		4,942	
Weapons		6,034	
Contract services		5,090	
Technical support		4,381	
Travel and schools		4,665	
Telephone and postage		5,819	
Cell phones and pagers		9,573	
Utilities		6,273	
Repair and maintenance		18,764	
Dues and subscriptions		478	
Miscellaneous		7,640	
Insurance		20,071	
Non capital equipment		7,780	
Capital outlay		29,638	
Total police department	<u>\$ 616,600</u>	<u>\$ 572,144</u>	<u>\$ 44,456</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2005

	Budget	Actual	Variance Positive (Negative)
Fire department			
Salaries and wages-regular		\$ 31,227	
Salaries and wages-part time		35,095	
Payroll tax		3,514	
Benefits		4,517	
Workers compensation		7,526	
Food and provisions		150	
Medical supplies		829	
Material and supplies		2,062	
Fuel and oil		5,619	
Uniforms		2,072	
Turn out gear		6,049	
Travel and schools		2,863	
Telephone		1,123	
Pagers and portable radios		8,598	
Utilities		6,273	
Repair and maintenance		19,955	
Dues and subscriptions		720	
Miscellaneous		2,133	
Insurance		10,897	
Fire pension fund		1,490	
Fire on-behalf of payments		6,251	
Annexation payments		12,425	
Total fire department	\$ 207,500	171,388	\$ 36,112
Total public safety	824,100	743,532	80,568
Transportation			
Streets and highways			
Engineering		308	
Maintenance		337	
Miscellaneous		451	
Non capital equipment		8,408	
Paving		41,513	
Right of way		15,667	
Total transportation	\$ 117,000	\$ 66,684	\$ 50,316

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2005

	Budget	Actual	Variance Positive (Negative)
Environmental protection			
Public works			
Employee wages-regular		\$ 130,988	
Employee wages-overtime		1,136	
Payroll taxes		9,516	
Employee benefits		19,122	
Workers compensation		9,881	
Professional fees		36,101	
Materials and supplies		10,470	
Fuel and oil		12,920	
Uniforms		689	
Safety equipment and materials		523	
Telephone and postage		3,449	
Utilities		3,108	
Street lights		30,201	
Repair and maintenance - equipment		22,943	
Miscellaneous		1,101	
Insurance		10,381	
Garbage and recycling contract		216,011	
Landfill charges		2,205	
Bad debts		129	
Capital outlay		60,860	
Total environmental protection	\$ 638,083	581,734	\$ 56,349
Economic and physical development			
Planning			
Professional fees - planner		27,628	
Material and supplies		104	
Tourism and economic development		2,500	
Travel and schools		90	
Advertising		568	
Miscellaneous		292	
Total economic and physical development	\$ 51,900	\$ 31,182	\$ 20,718

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2005

	Budget	Actual	Variance Positive (Negative)
Cultural and recreational			
Recreation			
Contractual services		\$ 20,088	
Little League lighting		3,261	
Christmas lights - electricity		1,350	
Community building utilities		7,444	
Community building repairs and maintenance		5,302	
Community building/Little League miscellaneous		763	
Christmas parade		261	
Christmas banquet		2,114	
Community building insurance		1,883	
YMCA pledge		1,000	
South Rowan ROTC		400	
Rowan senior center		400	
Farmer's Day		232	
Little League		84	
Total cultural and recreational	\$ 51,600	44,582	\$ 7,018
Debt service			
Principal retirement	86,100	107,338	(21,238)
Interest	-	14,179	(14,179)
Total debt service	86,100	121,517	(35,417)
Total expenditures	2,113,060	1,922,060	191,000
Revenues over (under) expenditures	\$ (30,860)	\$ 220,531	\$ 251,391

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2005

	Budget	Actual	Variance Positive (Negative)
Other financing sources (uses)			
Transfer to capital reserve	\$ (30,000)	\$ (30,000)	\$ -
Collection on loan to Utility Fund	305,000	-	(305,000)
Proceeds from borrowing	60,860	60,860	-
Fund balance appropriated	<u>(305,000)</u>	<u>-</u>	<u>305,000</u>
Total other financing sources (uses)	<u>30,860</u>	<u>30,860</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	251,391	<u>\$ 251,391</u>
Fund balances			
Fund balance, beginning		<u>1,288,826</u>	
Fund balance, end		<u>\$ 1,540,217</u>	

TOWN OF CHINA GROVE, NORTH CAROLINA
CAPITAL RESERVE FUND
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
From Inception and For the Fiscal Year Ended June 30, 2005

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues					
Interest	\$ -	\$ 40	\$ 956	\$ 996	\$ 996
Total revenues	-	40	956	996	996
Other financing sources (uses)					
Transfer from General Fund	150,000	30,000	30,000	60,000	90,000
Transfer to General Fund	(150,000)	-	-	-	(150,000)
Total other financing sources (uses)	-	30,000	30,000	60,000	(60,000)
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 30,040	\$ 30,956	\$ 60,996	\$ (59,004)

TOWN OF CHINA GROVE, NORTH CAROLINA
UTILITY FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
For the Fiscal Year Ended June 30, 2005

	Budget	Actual	Variance Positive (Negative)
Revenues			
Charges for services:			
Water sales	\$ 832,897	\$ 769,254	\$ (63,643)
Sewer sales	1,047,945	1,035,805	(12,140)
Reconnection fees-water	7,500	19,375	11,875
Reconnection fees-sewer	7,500	-	(7,500)
Late charges	14,000	25,877	11,877
Total charges for services	1,909,842	1,850,311	(59,531)
Water and sewer taps	17,000	11,635	(5,365)
Other operating revenues:			
Bad check fees	500	1,060	560
Miscellaneous	1,200	1,437	237
Total other operating revenues	1,700	2,497	797
Total operating revenues	1,928,542	1,864,443	(64,099)
Nonoperating revenues:			
Investment earnings	-	11,897	11,897
Total nonoperating revenues	-	11,897	11,897
Total revenues	\$ 1,928,542	\$ 1,876,340	\$ (52,202)

TOWN OF CHINA GROVE, NORTH CAROLINA
UTILITY FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
For the Fiscal Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures			
Water distribution:			
Salaries and wages-regular		\$ 86,329	
Salaries and wages-overtime		488	
Payroll taxes		5,782	
Employee benefits		13,100	
Workers compensation insurance		3,779	
Professional fees-engineer		34,565	
Office supplies		348	
Materials and supplies		39,371	
Fuel and oil		5,474	
Uniforms		564	
Contract services		241	
Travel and schools		1,713	
Telephone and postage		8,802	
Utilities		15,213	
Repair and maintenance-equipment		8,394	
Bank charges-high school		88	
Water purchase (Salisbury)		367,584	
Dues and subscriptions		3,705	
Miscellaneous		1,880	
Permits and licenses		3,835	
Tank maintenance		28,716	
Water testing		7,930	
Insurance		5,764	
Salisbury water line payments		120,718	
Bad debts		9,018	
	<hr/>	<hr/>	<hr/>
Total water distribution	\$ 654,750	\$ 773,401	\$ (118,651)

TOWN OF CHINA GROVE, NORTH CAROLINA
UTILITY FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
For the Fiscal Year Ended June 30, 2005

	Budget	Actual	Variance Positive (Negative)
Sewer collection:			
Salaries and wages-regular		\$ 55,908	
Salaries and wages-overtime		592	
Payroll taxes		4,323	
Employee benefits		7,977	
Workers compensation insurance		5,538	
Professional fees-engineer		10,793	
Office supplies		581	
Materials and supplies		7,217	
Fuel and oil		952	
Uniforms		423	
Contracted services		42,697	
Travel and schools		85	
Telephone and postage		1,786	
Utilities		9,153	
Repair and maintenance-equipment		22,253	
Sewer treatment charges		497,512	
Miscellaneous		36,342	
Permits and licenses		670	
Insurance		3,233	
Bad debts		5,923	
Total sewer collection	\$ 672,295	713,958	(41,663)
Debt service:			
Principal retirement	812,900	288,485	524,415
Interest expense	-	101,629	(101,629)
Total debt service	\$ 812,900	\$ 390,114	\$ 422,786
Capital outlay:			
Water and sewer lines	369,165	293,462	\$ 75,703
Total capital outlay	369,165	293,462	75,703
Total expenditures	\$ 2,509,110	\$ 2,170,935	\$ 338,175

TOWN OF CHINA GROVE, NORTH CAROLINA
UTILITY FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
For the Fiscal Year Ended June 30, 2005

	Budget	Actual	Variance Positive (Negative)
Other financing sources (uses):			
Transfer from Capital Project Fund	\$ -	\$ 796	\$ 796
Restricted intergovernmental funds:			
Rowan-Salisbury Schools	255,568	255,568	-
Fund balance appropriated	325,000	-	(325,000)
Total other financing sources (uses)	580,568	256,364	(324,204)
Revenues and other sources over expenditures and other uses	\$ -	(38,231)	\$ (38,231)
Reconciliation from budgetary basis (modified accrual) to full accrual			
Revenues over (under) expenditures		(38,231)	
Reconciling items			
Principal retirement		288,485	
Increase in accrued interest expense		611	
Capital outlay		293,462	
Depreciation		(224,394)	
Transfer from Capital Project Fund		(796)	
Restricted intergovernmental funds-capital project		139,456	
Total reconciling items		496,824	
Change in net assets		\$ 458,593	

TOWN OF CHINA GROVE, NORTH CAROLINA
SEWER CAPITAL PROJECT FUND
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
From Inception and For the Fiscal Year Ended June 30, 2005

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues	\$ -	\$ -	\$ -	\$ -	\$ -
Total	-	-	-	-	-
Expenditures					
Engineering	360,407	94,842	-	94,842	265,565
Construction	2,402,712	1,396,257	37,049	1,433,306	969,406
Administrative fees	48,054	186,141	-	186,141	(138,087)
Total expenditures	2,811,173	1,677,240	37,049	1,714,289	1,096,884
Revenues over (under) expenditures	(2,811,173)	(1,677,240)	(37,049)	(1,714,289)	1,096,884
Other financing sources (uses)					
Transfer to Utility Fund	-	-	(796)	(796)	796
Transfer from Utility Fund	-	36,949	-	36,949	(36,949)
Debt proceeds	2,811,173	1,678,136	-	1,678,136	1,133,037
Total other financing sources (uses)	2,811,173	1,715,085	(796)	1,714,289	1,096,884
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 37,845	\$ (37,845)	\$ -	\$ -

TOWN OF CHINA GROVE, NORTH CAROLINA
I-85 CORRIDOR SEWER CAPITAL PROJECT FUND
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
From Inception and For the Fiscal Year Ended June 30, 2005

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues					
Restricted intergovernmental					
Rowan County	\$ 586,500	\$ -	\$ 69,728	69,728	\$ (516,772)
Rowan-Salisbury School System	586,500	-	69,728	69,728	(516,772)
Total	1,173,000	-	139,456	139,456	(1,033,544)
Expenditures					
Construction	1,390,400	-	-	-	1,390,400
Professional services	208,560	-	149,154	149,154	59,406
Contingency	139,040	-	-	-	139,040
Environmental assessment	22,000	-	14,635	14,635	7,365
Total expenditures	1,760,000	-	163,789	163,789	1,596,211
Revenues over (under) expenditures	(587,000)	-	(24,333)	(24,333)	562,667
Other financing sources (uses)					
Debt proceeds	587,000	-	-	-	(587,000)
Total other financing sources (uses)	587,000	-	-	-	(587,000)
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ -	\$ (24,333)	\$ (24,333)	\$ (24,333)

TOWN OF CHINA GROVE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2005

Fiscal Year	Uncollected Balance June 30, 2004.	Additions	Collections and Credits	Uncollected Balance June 30, 2005
2004-2005	\$ -	\$ 970,670	\$ 943,964	\$ 26,706
2003-2004	42,234	-	29,442	12,792
2002-2003	20,789	-	12,266	8,523
2001-2002	14,807	-	8,783	6,024
2000-2001	9,611	-	5,194	4,417
1999-2000	8,834	-	5,432	3,402
1998-1999	3,933	-	1,972	1,961
1997-1998	2,866	-	780	2,086
1996-1997	2,224	-	330	1,894
1995-1996	2,544	-	903	1,641
1994-1995	1,433	-	1,433	-
	<u>\$ 109,275</u>	<u>\$ 970,670</u>	<u>\$ 1,010,499</u>	69,446
Plus uncollected 2005-2006 ad valorem taxes receivable				
on annually registered vehicles				263
other than motor vehicles				26
Less allowance for uncollectible accounts:				
General Fund				<u>9,025</u>
Ad valorem taxes receivable-net				<u>60,710</u>
Reconcilement with revenues:				
Ad valorem taxes - General Fund				1,019,602
Reconciling items				
Interest collected				(18,299)
Discounts allowed				7,291
Prior year abatements				701
Taxes written off				<u>1,204</u>
Total collections and credits				<u>\$ 1,010,499</u>

TOWN OF CHINA GROVE, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
TOWN-WIDE LEVY
For the Fiscal Year Ended June 30, 2005

	Town-wide		Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles Registered Motor Vehicles
Original levy:				
Property taxed at current year's rate	\$243,253,284	\$.40	\$ 972,997	\$ 888,229 \$ 84,768
Penalties	-		424	424 -
Total	243,253,284		973,421	888,653 84,768
Discoveries				
Current year taxes	738,485	.40	2,954	2,954 -
Prior year taxes	-		261	200 61
Total	738,485		3,215	3,154 61
Abatements	2,555,171		(5,966)	(4,811) (1,155)
Total property valuation	<u>\$246,546,940</u>			
Net levy			970,670	886,996 83,674
Uncollected taxes at June 30, 2005			(26,706)	(15,991) (10,715)
Current year's taxes collected			<u>\$ 943,964</u>	<u>\$ 871,005</u> <u>\$ 72,959</u>
Current levy collection percentage			<u>97.25%</u>	<u>98.20%</u> <u>87.19%</u>

SHERILL & SMITH, CPAs, PA

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Salisbury, NC 28145-1327
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and
Town Council
Town of China Grove, North Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of China Grove, North Carolina, as of and for the year ended June 30, 2005, which collectively comprises the Town of China Grove's basic financial statements, and have issued our report thereon dated August 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of China Grove's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of China Grove's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. We noted certain matters that we reported to management of the Town of China Grove in a separate letter dated August 30, 2005.

This report is intended solely for the information and use of management, others within the organization, the governing board, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sherrill & Smith, CPAs, PA

August 30, 2005

STATISTICAL SECTION

This part of the Town of China Grove's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Town of China Grove's overall financial health.

Contents	Page
Financial Trends <i>These tables contain trend information to help the reader understand how the town's financial performance and well-being have changed over time.</i>	77 - 82
Revenue Capacity <i>These tables contain information to help the reader assess the town's most significant local revenue source, the property tax.</i>	83 - 87
Debt Capacity <i>These tables present information to help the reader assess the affordability of the town's current levels of outstanding debt and the town's ability to issue additional debt in the future.</i>	88 - 90
Demographic and Economic Information <i>These tables offer demographic and economic indicators to help the reader understand the environment within which the town's financial activities take place.</i>	91 - 92
Operating Information <i>These tables contain service and infrastructure data to help the reader understand how the information in the town's financial report relates to the services the town provides and the activities it performs.</i>	93 - 95

Sources: Unless otherwise noted, the information in these tables is derived from the comprehensive annual financial reports for the relevant year.

**Town of China Grove
Net Assets by Component
(accrual basis of accounting)**

	Fiscal Year	
	<u>2004</u>	<u>2005</u>
Governmental activities		
Invested in capital assets, net of related debt	\$ 431,285	\$ 431,285
Restricted	189,988	249,056
Unrestricted	<u>1,144,513</u>	<u>1,395,182</u>
Total Governmental activities net assets	<u><u>\$ 1,765,786</u></u>	<u><u>\$ 2,075,523</u></u>
Business-type activities		
Invested in capital assets, net of related debt	\$ 2,175,321	\$ 2,733,713
Restricted	-	-
Unrestricted	<u>(15,882)</u>	<u>(115,681)</u>
Total business-type activities	<u><u>\$ 2,159,439</u></u>	<u><u>\$ 2,618,032</u></u>
Primary government		
Invested in capital assets, net of related debt	\$ 2,606,606	\$ 3,164,998
Restricted	189,988	249,056
Unrestricted	<u>1,128,631</u>	<u>1,279,501</u>
Total primary government net assets	<u><u>\$ 3,925,225</u></u>	<u><u>\$ 4,693,555</u></u>

Note: Information not available before 2004

Town of China Grove
Changes in Net Assets
Last Two Years
(accrual basis of accounting)

	Fiscal Year	
	<u>2004</u>	<u>2005</u>
Expenses		
Governmental activities:		
General government	\$ 326,728	\$ 340,493
Public Safety	895,431	744,031
Transportation	174,335	67,704
Environmental protection	485,858	544,948
Economic and physical development	24,377	31,182
Cultural and recreation	67,566	48,089
Interest on long term debt	17,282	14,066
Total governmental activities expenses	<u>1,991,577</u>	<u>1,790,513</u>
Business-type activities:		
Water and sewer	<u>1,747,411</u>	<u>1,812,771</u>
Total business-type activities expenses	<u>1,747,411</u>	<u>1,812,771</u>
Total primary government expenses	<u><u>3,738,988</u></u>	<u><u>3,603,284</u></u>
Program Revenues		
Governmental activities:		
Charges for services:		
General government	\$ -	\$ -
Public Safety	2,410	5,013
Transportation	-	-
Other activities	5,684	9,063
Operating grants and contributions	278,480	217,647
Capital grants and contributions	-	-
Total governmental activities program revenues	<u>286,574</u>	<u>231,723</u>
Business-type activities:		
Charges for services:		
Water and sewer	2,024,946	1,850,311
Operating grants and contributions	27,252	409,156
Capital grants and contributions	-	-
Total business-type activities program revenues	<u>2,052,198</u>	<u>2,259,467</u>
Total primary government program revenues	<u><u>2,338,772</u></u>	<u><u>2,491,190</u></u>

	Fiscal Year	
	<u>2004</u>	<u>2005</u>
Net (expense)/revenue		
Governmental activities	\$ (1,705,003)	\$ (1,558,790)
Business-type activities	<u>304,787</u>	<u>446,696</u>
Total primary government net expense	<u>(1,400,216)</u>	<u>(1,112,094)</u>

General Revenues and Other Changes in Net Assets

Governmental activities:

Taxes		
Property taxes	979,139	976,306
Sales taxes	552,178	619,135
Franchise taxes	204,296	204,098
Unrestricted grants and contributions	18,273	17,728
Investment earnings	6,510	14,772
Miscellaneous	36,957	36,488
Total governmental activities	1,797,353	1,868,527
Business-type activities		
Investment earnings	2,351	11,897
Total business-type activities	<u>2,351</u>	<u>11,897</u>
Total primary government	1,799,704	1,880,424

Changes in Net Assets

Governmental activities	92,350	309,737
Business-type activities	186,807	458,593
Total primary government	279,157	768,330

Note: Information not available before 2004

Town of China Grove
Governmental Activities Tax Revenues By Source
Last Two Years
(accrual basis of accounting)

Fiscal Year	Property Tax	Sales Tax	Franchise Tax	Alcoholic Beverage Tax	Total
2004	936,670	552,178	204,296	18,273	1,711,417
2005	976,306	619,135	204,098	17,728	1,817,267

Note: Information not available before 2004

**Town of China Grove
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)**

	Fiscal Year									
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
General Fund										
Reserved	\$ 203,697	\$ 35,336	\$ 95,556	\$ 155,597	\$ 454,334	\$ 674,840	\$ 893,567	\$ 976,432	\$ 1,060,580	\$ 807,715
Unreserved	398,046	453,945	515,970	492,778	372,015	190,368	203,811	230,737	228,246	732,502
Total general fund	\$ 601,743	\$ 489,281	\$ 611,526	\$ 648,375	\$ 826,349	\$ 865,208	\$ 1,097,378	\$ 1,207,169	\$ 1,288,826	\$ 1,540,217
All other governmental funds										
Capital reserve fund	-	-	-	-	-	-	-	-	30,040	60,996
Total all other governmental funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,040	\$ 60,996

Town of China Grove
Changes in Fund Balances of Governmental Funds
Last Ten Years
(modified accrual basis of accounting)

	Fiscal Year									
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Revenues										
Taxes	\$ 472,557	\$ 497,313	\$ 518,205	\$ 527,250	\$ 917,655	\$ 933,992	\$ 907,354	\$ 938,731	\$ 965,233	\$1,019,602
Licenses and permits	-	-	-	-	-	-	-	-	1,364	14,076
Intergovernmental	576,527	582,953	698,689	855,711	945,583	1,005,178	798,704	1,115,131.0	1,053,227	1,058,607
Investment earnings	20,623	17,420	16,494	17,066	19,420	25,499	10,868	6,331.0	6,470	13,816
Miscellaneous	146,423	78,708	75,085	74,708	76,471	93,460	76,368	87,768.0	43,688	36,490
Total revenues	1,216,130	1,176,394	1,308,473	1,474,735	1,959,129	2,058,129	1,793,294	2,147,961	2,069,982	2,142,591
Expenditures										
General government	196,848	215,627	212,967	293,964	322,624	303,905	356,011	363,533	324,240	332,829
Public safety	441,455	437,704	438,688	603,337	883,095	838,910	691,805	838,201	836,081	743,532
Transportation	240,971	439,724	271,798	255,841	362,041	402,441	453,225	584,114	173,314	66,684
Environmental Protection	131,790	168,864	168,948	168,798	183,818	189,992	213,673	189,047	478,973	581,734
Economic and physical development	-	-	-	-	-	-	-	-	24,377	31,182
Culture and recreation	20,854	21,792	31,981	50,624	50,378	53,746	51,147	43,873	63,734	44,582
Capital Outlay	-	-	-	-	-	-	-	-	-	-
Debt Service										
Principal	44,285	61,855	58,320	38,260	12,887	47,369	49,172	64,742	133,008	107,338
Interest	5,215	2,836	3,526	2,672	4,356	19,387	19,350	19,950	16,829	14,179
Total Expenditures	1,081,418	1,348,402	1,186,228	1,413,496	1,819,199	1,855,750	1,834,383	2,103,460	2,050,556	1,922,060
Excess of revenues over (under) expenditures	134,712	(172,008)	122,245	61,239	139,930	202,379	(41,089)	44,501	19,426	220,531
Other financing sources (uses)										
Transfers in	-	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	(109,300)	(229,509)	(241,283)	-	-	(30,000)	(30,000)
Proceeds from borrowing	31,459	59,546	-	21,621	267,553	171,472	60,719	65,290	-	60,860
Other charges	-	-	-	63,289	-	-	-	-	-	-
Total other financing sources (uses)	31,459	59,546	-	(24,390)	38,044	(69,811)	60,719	65,290	(30,000)	30,860
Net Change in fund balances	\$ 166,171	\$ (112,462)	\$ 122,245	\$ 36,849	\$ 177,974	\$ 132,568	\$ 19,630	\$ 109,791	\$ (10,574)	\$ 251,391
Debt Service as a percentage of noncapital expenditures	4.6%	4.8%	5.2%	2.9%	0.9%	3.6%	3.7%	4.0%	7.3%	6.3%

Town of China Grove
General Government Tax Revenues By Source
Last Ten Years
(modified accrual basis of accounting)

Fiscal Year	Property Tax	Sales Tax	Franchise Tax	Alcoholic Beverage Tax	Total
1996	\$ 470,816	\$ 283,996	\$ 96,006	\$ 15,478	\$ 866,296
1997	493,970	271,708	105,269	14,436	885,383
1998	515,294	303,665	130,022	15,935	964,916
1999	524,147	437,201	148,169	16,594	1,126,111
2000	913,249	459,017	205,475	16,363	1,594,104
2001	930,001	481,604	223,151	16,898	1,651,654
2002	904,216	447,924	129,379	-	1,481,519
2003	935,232	488,912	196,084	16,298	1,636,526
2004	959,757	552,178	204,296	18,273	1,734,504
2005	1,001,303	619,135	204,098	17,728	1,842,264

**Town of China Grove
Assessed Value of Property
Last Ten Years**

Tax Year	Real Property	Personal Property	Motor Vehicles	Public Service Companies	Total Assessed Value	Per \$100 Valuation Tax Rate
1995	N/A	N/A	N/A	N/A	N/A	N/A
1996	\$ 78,253,496	\$ 30,752,508	*	\$ 4,814,947	\$ 113,820,951	0.43
1997	82,288,915	33,192,729	*	5,775,329	121,256,973	0.43
1998	87,108,409	34,514,151	*	5,912,416	127,534,976	0.41
1999	133,660,618	87,622,619	*	6,026,384	227,309,621	0.40
2000	136,925,405	65,840,657	21,257,250	6,268,700	230,292,012	0.40
2001	148,834,294	54,317,018	20,372,752	6,519,061	230,043,125	0.40
2002	149,899,761	60,886,088	21,540,291	6,216,970	238,543,110	0.40
2003	173,821,330	49,950,923	20,947,469	6,317,153	251,036,875	0.40
2004	176,483,398	38,770,358	20,472,537	6,470,826	242,197,119	0.40

Information from NC TR-2 report, tax year 2005 not available yet

* *Motor vehicles were included in Personal Property values*

**Town of China Grove
Property Tax Rates
Direct and Overlapping Governments
Last Ten Years**

Fiscal Year	Town Tax Rate	(per \$100)		Town Levy	County Levy
		County Tax Rate	Total Tax Rate		
1996	0.43	0.6375	1.07	N/A	34,729,278
1997	0.43	0.6375	1.07	498,615	33,990,225
1998	0.43	0.6375	1.07	529,290	36,540,706
1999	0.41	0.635	1.05	529,263	38,247,341
2000	0.40	0.635	1.04	923,731	46,804,751
2001	0.40	0.635	1.04	950,819	47,994,399
2002	0.40	0.635	1.04	925,905	49,584,717
2003	0.40	0.635	1.04	959,108	51,720,546
2004	0.40	0.63	1.03	978,904	56,623,124
2005	0.40	0.63	1.03	970,670	50,520,117

**Town of China Grove
Principal Property Taxpayers
June 30, 2005**

<u>Taxpayer</u>	<u>Type of Business</u>	Tax Year 2004		
		<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Taxable Assessed Value</u>
Hitachi Metals NC LTD	Manufacturing	34,772,029	1	14.50%
National Textiles	Manufacturing	13,524,158	2	5.64%
Duke Energy Corporation	Power Substation	4,167,002	3	1.74%
Rowan Regional Medical Center	Medical	3,436,258	4	1.43%
R L R Investments	Distribution/Warehouse	2,800,069	5	1.17%
Richmond Mill	Manufacturing	2,435,652	6	1.02%
Centerview Plaza Investments	Commercial/Retail	2,375,897	7	0.99%
Tuscarora Yarns	Manufacturing	1,973,214	8	0.82%
Larry W. Page Family LTD	Residential/Rental	1,563,087	9	0.65%
Helen F. Deal	Residential/Rental	1,206,351	10	0.50%

Note: Information not available for prior years

**Town of China Grove
Property Tax Levies and Collections
Last Ten Years**

Fiscal Year Ended June 30	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	% of Levy		Amount	% of Levy
1996	N/A	N/A	N/A	N/A	N/A	N/A
1997	498,615	480,763	96.4%	15,958	496,721	99.62%
1998	529,290	502,339	94.9%	24,865	527,204	99.61%
1999	529,263	508,594	96.1%	18,708	527,302	99.63%
2000	923,731	897,890	97.2%	22,439	920,329	99.63%
2001	950,819	917,628	96.5%	28,774	946,402	99.54%
2002	925,905	888,336	95.9%	31,545	919,881	99.35%
2003	959,108	918,278	95.7%	32,307	950,585	99.11%
2004	978,904	936,670	95.7%	29,442	966,112	98.69%
2005	970,670	943,964	97.2%	-	943,964	97.25%

**Town of China Grove
Ratios of Outstanding Debt by Type
Last Ten Years**

Fiscal Year	Governmental Activities		Business-Type Activities		Total Primary Government	Percentage of Personal Income *	Per Capita *
	Installment Purchases	Annexation Agreement	Installment Purchases	Bonds			
1996	\$ 83,089	\$ -	\$ -	\$ -	\$ 83,089	0.13%	\$ 21.72
1997	80,781	-	-	-	80,781	0.12%	20.57
1998	22,461	-	-	-	22,461	0.03%	5.89
1999	13,894	55,216	2,052,531	-	2,121,641	3.21%	546.96
2000	7,195	49,028	2,831,784	-	2,888,007	4.69%	798.67
2001	405,412	42,467	2,654,798	-	3,102,677	4.73%	805.89
2002	422,947	36,479	2,713,550	-	3,172,976	4.83%	823.08
2003	429,844	30,130	3,983,790	-	4,443,764	6.76%	1,152.73
2004	303,567	23,399	3,922,646	-	4,249,612	6.34%	1,080.78
2005	280,488	-	3,634,161	-	3,914,649	5.46%	930.29

* See the schedule of Demographic and Economic Statistics for Personal Income and population data from 2000 census

Town of China Grove
Ratios of General Bonded Debt Outstanding

N/A

Note: The Town of China Grove has no bonded debt.

**Town of China Grove
Legal Debt Margin Information
Last Nine Years**

	Fiscal Year								
	1997	1998	1999	2000	2001	2002	2003	2004	2005
Debt limit	\$ 8,800,000	\$ 9,293,455	\$ 10,147,503	\$ 18,363,457	\$ 18,011,076	\$ 18,485,692	\$ 19,083,558	\$ 19,560,051	\$ 19,723,755
Total net debt applicable to limit	80,781	22,461	2,121,641	2,888,007	3,102,677	3,172,976	4,443,764	4,249,612	3,914,649
Legal debt margin	<u>\$ 8,719,219</u>	<u>\$ 9,270,994</u>	<u>\$ 8,025,862</u>	<u>\$ 15,475,450</u>	<u>\$ 14,908,399</u>	<u>\$ 15,312,716</u>	<u>\$ 14,639,794</u>	<u>\$ 15,310,439</u>	<u>\$ 15,809,106</u>
Total net debt applicable to the limit as a percentage of debt limit	0.92%	0.24%	20.91%	15.73%	17.23%	17.16%	23.29%	21.73%	19.85%

Legal Debt Margin Calculation for Fiscal Year 2005

Total assessed value	\$246,546,940
Debt Limit (8% of total assessed value)	\$ 19,723,755
Debt applicable to limit:	
General fund debt	280,488
Utility fund debt	<u>3,634,161</u>
Total net debt applicable to limit	3,914,649
Legal Debt Margin	<u>\$ 15,809,106</u>

Note: Under state finance law, the Town of China Grove's outstanding general obligation debt should not exceed 8 percent of total assessed property value.

**Town of China Grove
Demographic and Economic Statistics
Last Ten Fiscal Years**

Fiscal Year	Population	Personal Income	Per Capita Personal Income *	Median Age *	Education Level in Years of Formal Schooling	School Enrollment *	Rowan County Unemployment Rate **
1996	3825	\$ 65,178,000	\$ 17,040	35.1	N/A	833	3.7%
1997	3928	66,933,120	17,040	35.1	N/A	833	3.2%
1998	3812	64,956,480	17,040	35.1	N/A	833	2.8%
1999	3879	66,098,160	17,040	35.1	N/A	833	3.1%
2000	3616	61,616,640	17,040	35.1	N/A	833	4.5%
2001	3850	65,604,000	17,040	35.1	N/A	833	6.6%
2002	3855	65,689,200	17,040	35.1	N/A	833	6.4%
2003	3855	65,689,200	17,040	35.1	N/A	833	7.5%
2004	3932	67,001,280	17,040	35.1	N/A	833	7.2%
2005	4208	71,704,320	17,040	35.1	N/A	833	5.6%

* *United States Census Bureau from the year 2000*

** *Employment Security Commission of North Carolina*

**Town of China Grove
Principal Employers
Current Year**

Employer	2005	
	Employees	Rank
R & L Carriers, LLC	180	1
National Textiles	139	2
Food Lion (2 stores)	116	3
China Grove Elementary School	110	4
Hitachi Metals NC LTD	79	5
China Grove Middle School	71	6
Tuscarora Yarns	66	7
Porky's Barbeque	41	8
Gary's Barbeque	31	9
Town of China Grove	27	10

Note: Information not available before 2005

Town of China Grove
Full-time Equivalent Town Government Employees by Function
Last Ten Years

Full-time Equivalent Employees as of June 30		
	2004	2005
Function		
Administration	5	4
Public Safety		
Police	9	8
Fire	1	1
Streets	0	0
Public Works	6	5
Utility		
Water	3	3
Sewer	2	1
Total		

Note: Data is not available before 2004

**The Town of China Grove
Operating Indicators by Function**

N/A

*Note: The Town of China Grove has implemented a Performance Measurement Program
This data will be available for fiscal year 2005 - 2006*

**Town of China Grove
Capital Asset Statistics by Function
Last Two Years**

Function	Fiscal Year	
	2004	2005
Public Safety		
Police		
Stations	1	1
Patrol Units	12	12
Fire Stations	1	1
Public Works		
Curbside Trucks	1	1
Brush Trucks	1	1
Leaf Trucks	2	2
Highway and Streets		
Street(miles)	16.67	16.98
Streetlights	323	329
Traffic signals	6	6
Culture and Recreation		
Park acreage		
Parks	5	5
Tennis courts	1	1
Community center	1	1
Water		
Water mains(miles)	27.48	28.109
Fire hydrants	218	220
Maximum daily capacity (thousands of gallons)	N/A	N/A
Sewer		
Sanitary sewers(miles)	27.5	27.5
Maximum daily treatment capacity (thousands of gallons)	N/A	N/A

Sources: Various town departments

Note: No capital asset indicators are available for the general government function. The City of Salisbury supplies 300,000 gallons a day of water and treats our sewer. We also contract with Waste Management for garbage collection